

Annexure A



Modified Cash Standard

For Effective Financial Management in the
South African Public Sector

For financial years commencing 1 April 2026

Chapters

Chapter 1: Preface To The Modified Cash Standard	3
Chapter 2: Concepts And Principles.....	8
Chapter 3: Financial Statement Presentation	21
Chapter 4: Accounting Policies, Estimates And Errors	36
Chapter 5: Appropriation Statement	46
Chapter 6: Cash Flow Statements.....	52
Chapter 7: Revenue	62
Chapter 8: Expenditure	68
Chapter 9: General Departmental Assets And Liabilities	74
Chapter 10: Treasury Financial Instruments.....	86
Chapter 11: Capital Assets.....	100
Chapter 12: Inventories.....	132
Chapter 13: Leases.....	140
Chapter 14: Provisions And Contingents.....	153
Chapter 15: Related Party Disclosures	166
Chapter 16: Accounting By Principals And Agents	174
Chapter 17: Events After The Reporting Date	189
Chapter 18: Consolidated Financial Statements.....	197
Chapter 19: Transfer Of Functions	202
Chapter 20: Mergers	212
Chapter 21: The Effects of Changes in Foreign Exchange Rates.....	222

Chapter 1: Preface To The Modified Cash Standard

Chapter content

Introduction to and authority of the Modified Cash Standard.....	5
Structure of the Modified Cash Standard	5
Developing the Modified Cash Standard	6
Due process	6
Timing and application of the Modified Cash Standard	7

This Chapter formed part of the original Standard published in 2013 and has since then been considered for improvement as part of the amendments process conducted by the National Treasury's Office of the Accountant-General, more specifically:

- Amendments to the Modified Cash Standard (Issued 31 March 2022); and
- Amendments to the Modified Cash Standard (Issued 31 March 2025).

Introduction to and authority of the Modified Cash Standard

- .01 The Public Finance Management Act (PFMA), No 1 of 1999, requires departments to “prepare financial statements for each financial year in accordance with generally recognised accounting practice”. The Treasury Regulations require the accounting officer of a department to ensure that the annual financial statements are prepared on a modified cash basis in accordance with the formats prescribed by the National Treasury¹.
- .02 The Office of the Accountant-General (OAG)² in the National Treasury has accordingly developed and issued the Modified Cash Standard (hereafter ‘the Standard’) which sets out the principles for the recognition, recording, measurement, presentation and disclosure of information required in terms of the prescribed formats.
- .03 Departments that claim compliance with the modified cash basis of accounting must adhere fully with the principles, presentation and disclosure requirements contained in this Standard in order to achieve fair presentation, and compliance with the PFMA and its regulations.
- .04 The Standard comprises of separate chapters for assets, liabilities, revenue and expenditure. More than one chapter may exist for each item depending on the nature and complexity of the topic. Each chapter sets out the recognition, recording, measurement, presentation and disclosure requirements on these items.

Structure of the Modified Cash Standard

- .05 Under the modified cash basis of accounting, only certain elements are recognised in the Statement of Financial Position and Statement of Financial Performance, while others are recorded for presentation as notes. Elements are primarily recognised when they arise from cash inflows or outflows. This differs from accrual accounting which requires the recognition of the effects of transactions and other events when they occur, rather than when cash or its equivalent is received or paid.
- .06 To ensure a complete view of the financial position and performance of a department for the purposes of fair presentation, and without changing the basis of accounting, this Standard also prescribes disclosure requirements for additional information relating to elements that do not qualify for recognition. To aid preparers in understanding this requirement, the Standard distinguishes between *primary* (recognised and disclosed) and *secondary* (recorded and disclosed) financial information, but does not place a greater degree of importance on either type of information.
- .07 Primary and secondary information are of equal importance and are therefore considered to be equally necessary for fair presentation. As such, secondary information is considered an integral part of the financial statements.
- .08 Primary financial information relates to the presentation and disclosure of recognised assets, liabilities, revenue and expenditure in the financial statements and their supporting notes. Secondary financial information relates to the presentation and disclosure of additional information about assets and liabilities that are also required to be recorded, but are at present not recognised in the financial statements due to the application of the modified cash basis of accounting. Secondary information therefore generally provides information about elements that would have qualified for recognition had

¹ Treasury Regulation 18.2 and a National Treasury Instruction issued in terms of Section 76 of the PFMA.

² The OAG may issue a National Treasury Instruction to inform national and provincial departments of the reporting framework to be applied in the preparation of financial statements stipulating the MCS as the primary authoritative document.

an accrual basis of accounting been applied. Where applicable, chapters are divided into two distinct parts dealing separately with primary and secondary financial information.

- .09 Appendices are added to explain and expand upon the principles in the chapters through application guidance, illustrative examples or questions and answers.
- .10 Each chapter must be read in the context of the objective stated therein. Any exclusion from the scope of that chapter is set out in the chapter itself. All paragraphs in the chapters have equal authority. The authority of the appendices is dealt with in the introduction to each appendix.

Developing the Modified Cash Standard

- .11 In developing the Standard, the OAG considers and makes use of pronouncements issued by:
 - the Accounting Standards Board (ASB);
 - the International Public Sector Accounting Standards Board (IPSASB);
 - the International Accounting Standards Board (IASB); and
 - other organisations that develop financial reporting, accounting and auditing requirements for the public sector.
- .12 In developing the Standard, the OAG also considers:
 - best practices, both locally and internationally;
 - the capacity of departments to comply with the reporting requirements; and
 - the systems used by departments in preparing and collating the information required to comply with the reporting requirements.

Due process

- .13 The Standard was developed through a due process that involves accountants, auditors, preparers and the users of the departmental financial statements.
- .14 In developing and updating the Standard, research is carried out to identify and review issues associated with the topic and to consider the application of the concepts and principles to the issues. The principles in the existing accounting standards, such as Generally Recognised Accounting Practice (GRAP), International Public Sector Accounting Standards (IPSAS) or International Financial Reporting Standards (IFRS), are also studied. Where required, the national and provincial legislation is consulted to develop principles and or required disclosures.
- .15 The draft Standard is exposed for comment by interested parties including auditors, preparers, standard setters, public sector consultants and individuals. The draft is published on the OAG's website for a period of time to allow interested parties to consider and comment on the Standard. The OAG considers all comments received and makes modifications where appropriate.
- .16 The Standard is reviewed by the OAG periodically. The process for the amendment of the Standard is broadly described in the preceding paragraphs. The appendices are updated periodically to provide clarification on issues arising from time to time for example during the preparation of the departmental financial statements and or the audit thereof.

Timing and application of the Modified Cash Standard

- .17 The Standard was first issued for all financial periods beginning on 1 April 2013.

Chapter 2: Concepts And Principles

Chapter content

Objective	10
The Objective of the Departmental Annual Financial Statements	10
Users of the Departmental Financial Statements	11
The Modified Cash Basis of Accounting	12
Qualitative Characteristics and Fair Presentation	12
The Elements of Financial Statements	14
Recognition and Recording of the Elements of the Departmental Financial Statements	18
Measurement of the Elements of the Departmental Financial Statements	19
Comparison with the Standards of GRAP	20

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Objective

- .01 The objective of this Chapter is to set out the principles on which the chapters dealing with specific topics will be based. The primary purpose of articulating these principles is to provide a coherent frame of reference to be used in the development of the accounting requirements for departments.
- .02 Accordingly, this Chapter sets out the concepts that underlie the preparation and presentation of financial statements for users. The purpose of this Chapter is to:
 - (a) provide users of the departmental financial statements with information on the bases on which such financial statements are prepared and assist them in assessing whether proper stewardship was exercised;
 - (b) assist preparers of the departmental financial statements in applying the Standard and in dealing with topics that have yet to be dealt with in the ensuing chapters;
 - (c) assist auditors in forming an opinion as to whether financial statements comply with the Standard;
 - (d) assist the users of departmental financial statements in interpreting the information contained in the financial statements prepared in conformity with the Standard; and
 - (e) provide the OAG with a conceptual basis for the formulation of the Standard.
- .03 This chapter is concerned with general-purpose financial statements including consolidated financial statements. Such financial statements are prepared annually and are directed toward the common information needs of a wide range of users. Many users rely on the financial statements as the primary source of financial information for departments and such financial statements should, therefore, be prepared and presented taking these needs into consideration.

The Objective of the Departmental Annual Financial Statements

- .04 The purpose of the financial statements is to present a true and fair view of a department's financial performance, financial position, changes in net assets and cash flows and other disclosures that is useful to a wide range of users, and to provide additional information that would be useful in decision-making. Financial statements also reflect the results of the stewardship of management, and the accountability of management for the resources entrusted to it. As such, they are an important means of demonstrating how the public sector meets its financial management responsibilities.
- .05 Financial statements prepared for this purpose meet the common needs of most users. However, financial statements do not provide all the information that users may need to make decisions since they largely portray the financial effects of past events and do not necessarily provide prospective information or non-financial information.

Assessing stewardship

- .06 Stewardship is an important factor in the user's assessment of the departmental financial statements. Accountability for the use of public funds and the safekeeping of the department's resources is of paramount importance. Financial reporting plays a major role in fulfilling the duty to be publicly accountable for the collection of revenue and the use of resources in the rendering of public services.
- .07 Management is also interested in the information contained in the financial statements even though it has access to additional management and financial information required for it to carry out its planning, decision-making and control responsibilities. Management has the ability to determine the form and content of such additional information to meet its own needs. The reporting of such information,

however, is beyond the scope of the Standard. Nevertheless, published financial statements are based on the information used by management about the financial performance, financial position, changes in net assets and cash flows of the department.

Accountability

- .08 Accountability is the cornerstone of financial reporting in government. Accountability is based on the belief that the citizens have 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.
- .09 Public sector entities impose taxes and provide services. The taxes imposed and services provided by public sector entities possess characteristics that need to be considered when developing financial reporting objectives, bearing in mind those taxpayers cannot choose whether or not to pay taxes. Neither is there a proportional relationship between the amount of taxes paid, and the cost or value of the services received by the individual. These characteristics highlight the need for public accountability.
- .10 At a minimum, accountability through financial reporting includes providing information to assist in evaluating whether the government has operated within the legal constraints imposed by the citizens. The structure of government, the nature of the resource providers, and the political process are characteristics of the environment that underscore the need for accountability.

Decision Usefulness

- .11 Financial statements are an important source of information upon which users base their decisions about government policy, future resource requirements, and, ultimately, service delivery. For departmental financial statements to be useful to the users thereof, they should meet the qualitative characteristics and fair presentation set out in this Standard.

Users of the Departmental Financial Statements

- .12 The users of the departmental financial statements include:
- Parliament / Provincial Legislatures;
 - Elected officials;
 - National / Provincial Treasuries;
 - The public (including taxpayers and employees of the department);
 - Donors;
 - Statisticians and economists;
 - Suppliers and creditors;
 - Present and potential institutional and individual lenders, including purchasers of government bonds;
 - Other Governments; and
 - The media.
- .13 Financial statements in general are aimed at meeting the information requirements of a wide range of

users. Accounting requirements are therefore set with this principle in mind. The financial statements of a department provide information for the above users as far as possible to facilitate oversight and decision-making. For example, information is provided on:

- the receipt and spending of appropriated funds;
- the collection of departmental (own) revenue;
- the management of resources as well the resources available to deliver goods and services (such as the capital assets held by a department);
- future commitments and or savings (including roll-overs);
- how the funds have been used and to what extent funds have been made available to deliver goods and services;
- the receipt and spending of donor funding.

- .14 While financial statements cannot meet all the information needs of the users, there are needs that are common to all users. Since government, national and provincial treasuries, Parliament and the legislatures have a direct interest; the provision of financial statements that meet their needs will also meet most of the needs of other users.

The Modified Cash Basis of Accounting

- .15 The most appropriate basis of accounting depends on the qualitative characteristics set out in this Chapter, which in turn are interpreted in the context of users' needs. At present the users of the departmental financial statements are primarily concerned with the utilisation of allocated resources.
- .16 The South African departmental financial statements are prepared on a modified cash basis of accounting. Under a "pure" cash basis, the effects of transactions and other events are recognised in the financial statements when the resulting cash or its equivalent are received or paid. In other words, a transaction is only recognised when it is initiated by the receipt or payment of cash. However, other chapters of this Standard may also incorporate other recognition practices that are not based solely on the aforementioned cash accounting principles, giving rise to the Modified Cash Basis.
- .17 As explained in Chapter 1 on *Preface To The Modified Cash Standard*, supplementary accrual information is provided in the notes to the departmental financial statements to assist users in holding a department accountable for the management of its assets and liabilities. For the purposes of this Standard, the recognised assets, liabilities, revenue and expenditure are provided as primary financial information, whereas the supplementary information is provided as secondary information in the notes. Secondary information includes certain important information that provides additional information to the users of the financial statements on which other assets and liabilities would have been recognised had an accrual basis of accounting been applied, and is consequently deemed to be of equal importance and an integral part of the financial statements.
- .18 Transactions, events, assets and liabilities are measured in accordance with the specific Chapter that addresses those transactions, events, assets and liabilities.

Qualitative Characteristics and Fair Presentation

- .19 To achieve its stated objective, information in the financial statements must have certain qualitative characteristics. These qualitative characteristics are discussed below.

Understandability

- .20 The information contained in the financial statements must be understandable to the average user who has a reasonable knowledge of government, the department's activities and environment, accounting and a willingness to study the information with reasonable diligence.
- .21 This does not imply that information should be excluded from the financial statements simply because it may be too complex for certain readers to understand.

Relevance

- .22 Relevant information is information that is decision useful and can therefore influence stewardship by helping users to evaluate past, present or future events, or confirming or correcting their past evaluations.
- .23 The relevance of information is established by reference to the nature and the materiality of the information concerned.
- .24 Information is material if its omission, misstatement, or non-disclosure could influence the decisions of users made on the basis of the financial statements. Materiality depends on the nature or size of the item or error judged in the particular circumstances of its omission, misstatement, or non-disclosure in the financial statements. Thus, materiality provides a threshold or cut-off point rather than being a primary qualitative characteristic which information must have to be useful.
- .25 Material omissions or misstatements of items are material if they could, individually or collectively, influence the decisions or assessments of users made on the basis of the financial statements. The size or nature of the information item, or a combination of both, could be factors in determining materiality of the omission or misstatement.
- .26 Misstatement is the difference between the amount, classification, presentation or disclosure of a reported financial statement item and the amount, classification, presentation or disclosure that is required for the item to be in accordance with the Standard. Misstatements can arise from fraud or error. In other words, a misstatement arises where there is a difference between the reported figures, and what is expected to be reported in order for the financial statements to be fairly presented. Misstatements can be factual, in the case of a clear breach of a requirement of a financial reporting standard, or could be judgmental, arising from unsuitable estimation techniques or the selection of inappropriate accounting policies.

Reliability

- .27 Information is reliable when it does not contain material errors and is free from bias. The users of the financial statements should be able to rely on the information as a faithful representation of the transactions, balances and events that it purports to represent. The term "reliability" does not mean "absolute accuracy" but rather refers to information that the users can trust.
- .28 Reliable information will:
- reflect the substance rather than the legal form of the transactions or events;
 - be neutral in that it should not present information in a manner to achieve a predetermined result; and
 - be complete, within the bounds of materiality and cost.

Comparability

- .29 Information should be comparable to enable users to identify trends and to assess performance over time and between similar entities. One of the main reasons for the disclosure of accounting policies in the financial statements is to assist users in comparing the financial statements of different entities.

The Elements of Financial Statements

- .30 The financial statements portray the financial effects of specific transactions and events by grouping them into broad classes according to their economic characteristics. These broad classes are termed the elements of financial statements.

Financial position

- .31 The elements directly related to the measurement of financial position are as follows:
- (a) an **asset** is a resource controlled by the department as a result of past events and from which future economic benefits or service potential is expected to flow to the department.
 - (b) a **liability** is a present obligation of the department arising from past events, the settlement of which is expected to result in an outflow of resources embodying economic benefits or service potential.
 - (c) **net assets** are the residual that remains after deducting all of a department's recognised liabilities from its recognised assets.
- .32 The definitions of an asset and a liability identify their essential features but do not attempt to specify the criteria that need to be met before they are recognised or recorded for disclosure in the financial statements. Thus, the definitions are broader than only those elements recognised as assets and liabilities in the statement of financial position or recorded for disclosure purposes. Generally, the expectation that future economic benefits or service potential will flow to or from a department must be sufficiently certain before an asset or liability is recognised or recorded.
- .33 In assessing whether an item meets the definition of an asset, liability or net assets, attention needs to be given to its underlying substance and economic reality and not merely its legal form.

Assets

- .34 Assets provide a means for entities to achieve their objectives. Assets that are used to deliver goods and services in accordance with a department's objectives but which do not directly generate net cash inflows are often described as embodying "service potential". Assets that are used to generate net cash inflows are often described as embodying "future economic benefits".
- .35 The future economic benefit or service potential embodied in an asset is the potential to contribute directly or indirectly, to the flow of cash and cash equivalents to the department or the rendering of services by the department. The potential may be a productive one that is part of the operating activities of the department. It may also take the form of convertibility into cash or cash equivalents or a capability to reduce cash outflows, such as when an alternative method of service delivery reduces the cost of delivery.
- .36 A department usually employs its assets to provide goods or services capable of satisfying the wants or needs of beneficiaries. Furthermore, in many cases, assets are used to provide goods or services to beneficiaries or customers that are free or subsidised. An item can meet the definition of an asset if it is used either directly or indirectly to provide goods and/or services that are used in furtherance of a

department's objectives.

- .37 The future economic benefits or service potential embodied in an asset may flow to the department in a number of ways. For example, an asset may be:
- (a) used singly or in combination with other assets in the production of goods or services to the benefit of the department's beneficiaries;
 - (b) exchanged for other assets;
 - (c) used to settle a liability; or
 - (d) distributed or reallocated within government.
- .38 Many assets, for example, capital assets have a physical form. However, physical form is not essential to the existence of an asset; hence, mineral rights, patents and copyrights, for example, are assets if future economic benefits or service potential is expected to flow from them to the department and if they are controlled by the department.
- .39 Many assets, for example, receivables and property, are associated with legal rights, including the right of ownership. In determining the existence of an asset, the right of ownership is not essential; thus, for example, property held on a lease is an asset if the department controls the benefits, which are expected to flow from the property. Although the capacity of a department to control benefits is usually the result of legal rights, an item may nonetheless satisfy the definition of an asset even when there is no legal control. For example, know - how obtained from a development activity may meet the definition of an asset when a department controls the benefits that are expected to flow from it.
- .40 Entities that have custody of an asset may not have all the legal powers of ownership, such as the ability to sell the item. There may also be restrictions on the department's use of the asset. However, this does not necessarily mean that the department does not control access to future economic benefits or service potential. To satisfy the requirement for control, the department does not need unlimited power over the physical item. Instead, it is the rights or access to future economic benefits or service potential that need to be controlled.
- .41 The requirement that the rights or other access should be controlled by the department treating them as its assets means that a particular right or other access to future economic benefits or service potential will appear in only one set of department financial statements, because such rights or access can be directly controlled by only one department.
- .42 The assets of a department result from past transactions or other past events. Entities normally obtain assets by purchasing or producing them, but other transactions or events may generate assets; examples include property received by a department from government as part of a programme to encourage economic growth in an area and the discovery of mineral deposits. Transactions or events expected to occur in the future in themselves do not give rise to assets; hence, for example, an intention to purchase inventory of itself, does not meet the definition of an asset.
- .43 There is a close association between incurring expenses and generating assets but the two do not necessarily coincide. Hence, when a department incurs expenses, this may provide evidence that future economic benefits or service potential were sought but is not conclusive proof that an item satisfying the definition of an asset has been obtained. Similarly, the absence of a related expense does not preclude an item from satisfying the definition of an asset for example, items that have been donated to the department or natural increases in biological assets may satisfy the definition of an asset.

Liabilities

- .44 An essential characteristic of a liability is that the department has a present obligation. An obligation is a duty or responsibility to act or perform in a certain way. Obligations may be legally enforceable as a consequence of a contractual or statutory arrangement, i.e. the department has no realistic alternative to avoid the outflow of economic resources or service potential. This is normally the case, for example, with amounts payable for services rendered and goods received. Obligations also arise, however, from normal business practice, custom and a desire to maintain good relations or act in an equitable manner.
- .45 A distinction needs to be drawn between a present obligation and a future commitment. A decision by the management of a department to acquire assets in the future does not of itself, give rise to a present obligation. An obligation normally arises only when the asset is delivered or the department enters into an irrevocable agreement to acquire the asset. In the latter case, the irrevocable nature of the agreement means that the economic consequences of failing to honour the obligation, for example, the existence of an order of court, leaves the department with no realistic alternative to avoid the outflow of resources to another party.
- .46 Governments make and amend general promises and policies as part of the ongoing political processes. Consideration should be given to such promises to determine if, and when, such promises have given rise to a present obligation and/or a future commitment.
- .47 The settlement of a present obligation usually involves the department giving up resources embodying economic benefits or service potential in order to satisfy the claim of the other party. Settlement of a present obligation may occur in a number of ways, for example, by:
- (a) payment of cash;
 - (b) transfer of other assets;
 - (c) provision of services;
 - (d) replacement of that obligation with another obligation; or
 - (e) conversion of the obligation to net assets.
- .48 An obligation may also be extinguished by other means, such as a creditor waiving or forfeiting its rights.
- .49 Liabilities result from past transactions or other past events.
- .50 Sometimes a series of events will have to take place before the department will have an obligation to transfer economic benefits or service potential. In such circumstances, the existence of an obligation depends on whether any events that have still to take place are under the department's control. If they are, the department has a realistic alternative to avoid the transfer, so no obligation exists. For example, as long as it has a realistic alternative to avoid a penalty clause in a contract by performing, a liability in respect of the penalty will not arise.
- .51 Some liabilities can be measured only by using a substantial degree of estimation, sometimes described as provisions. Thus, when a provision involves a present obligation and satisfies the rest of the definition, it is a liability even if the amount has to be estimated.

Net assets

- .52 Residual interest is the amount calculated by deducting all of the department's liabilities from all of the department's assets.

- .53 “Net assets” is the term used to refer to the residual measure in the statement of financial position (assets less liabilities). Net assets may be positive or negative. Other terms may be used in place of net assets, provided their meaning is clear.
- .54 Although net assets are defined as a residual, it may be sub-classified in the statement of financial position. Such classifications can be relevant to the decision-making needs of the users of financial statements when they indicate legal or other restrictions on the ability of the department to distribute or otherwise apply its net assets.
- .55 The distinction between liabilities and residual interest is highly significant. Creditors have the ability to insist that a transfer of economic benefit or service potential is made to them regardless of the circumstances. Most entities in the public sector are owned by other government entities or by the public as a constituency or the community as a whole. These owners frequently do not have the right to participate in a distribution of the net assets. Government departments are owned by their respective national or provincial governments, depending on which sphere of government they operate in. Any net surplus remaining after discharging liabilities to other creditors is generally payable back to the relevant treasury.

Financial performance

- .56 The elements directly related to the measurement of the surplus or deficit are as follows:
- (a) **revenue** is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to capital contributions to net assets.
 - (b) **expenses** are decreases in economic benefits or service potential during the reporting period in the form of outflows or incurrences of liabilities that result in decreases in net assets, other than those relating to capital distributions from net assets.
- .57 The definitions of revenue and expenses identify their essential features but do not attempt to specify the criteria that would need to be met before they are recognised in the statement of financial performance. Revenue and expenses are discussed below.

Revenue

- .58 Revenue arise in the course of the operating activities of a department, and is referred to by a variety of different names including tax receipts, transfers, interest, dividends and rent on land.
- .59 Various kinds of assets may be received or enhanced by revenue; for example cash, may be received for services rendered and goods supplied or taxes due and payable. Revenue may also result from the settlement of liabilities. For example, a lending department may receive goods or services in settlement of a present obligation to repay an outstanding loan. Revenue also results from the sharing of revenue collected by one sphere of government and transferred to another sphere of government, also known as ‘voted funds’, or ‘equitable share’.

Expenses

- .60 The definition of expenses encompasses losses as well as those expenses that arise in the course of the operating activities of the department. Expenses that arise in the course of the operating activities of the department include, for example, cost of services rendered and salaries and wages. They usually take the form of an outflow of assets such as cash and cash equivalents.
- .61 Losses represent other items that meet the definition of expenses and may, or may not, arise in the

course of the operating activities of the department. Losses represent decreases in economic benefits or service potential and as such, they are no different in nature from other expenses. Hence, they are not regarded as a separate element in this Standard.

- .62 Losses include, for example, those resulting from disasters such as fire and flood, as well as those arising on the disposal of capital assets. Losses are often reported net of related revenue to reflect the substance of the transaction or event.

Recognition and Recording of the Elements of the Departmental Financial Statements

- .63 *Recognition* is the process of incorporating in the statement of financial position or statement of financial performance an item that meets the definition of an element and satisfies the criteria for recognition set out in paragraph .68. It involves the depiction of the item in words, and in monetary amounts, and the inclusion of those amounts in the statement of financial position or statement of financial performance totals.
- .64 *Recording* is the process of capturing the financial information relating to a particular transaction, event, asset or liability in the electronic or manual accounting records of the department for the purposes of disclosure as secondary financial information.
- .65 *Disclosure* is the depiction of a recognised and or recorded item of information in the notes to financial statements in accordance with the requirements of this Standard, whereas *presentation* refers to the layout and positioning of the item within the primary financial statements.
- .66 Items that satisfy the recognition criteria should be recognised in the statement of financial position or statement of financial performance (primary financial information). The failure to recognise such items is not rectified by disclosure of the accounting policies used nor by notes or explanatory material.
- .67 The inclusion of elements in the financial records and ultimately the financial statements results from the following process:
- (a) initial recognition / recording and measurement, which is when an item is initially captured in the electronic or manual records for the first time;
 - (b) subsequent re-measurement, which involves changing the amount at which an already recognised / recorded asset or liability is stated in the electronic or manual records;
 - (c) derecognition, which is when an item that was previously recognised in primary financial information ceases to be recognised; and
 - (d) removal, which is when an item that was previously recorded and disclosed in the secondary financial information is no longer required to be disclosed in accordance with this Standard.
- .68 Generally, unless specified otherwise, an item that meets the definition of an element should be recognised if:
- it results in an immediate cash in- or outflow; or
 - it is readily convertible to known amounts of cash; and
 - the item has a cost or value that can be measured reliably.
- .69 An item that meets the definition of an element should be recorded for disclosure (secondary financial information) where it meets the specific criteria established for such items in the relevant chapters of

this Standard.

- .70 In assessing whether an item meets these criteria and therefore qualifies for inclusion in the financial statements, regard needs to be given to the materiality considerations discussed in paragraphs .23 to .25. The interrelationship between the elements means that an item that meets the definition and recognition criteria for a particular element, for example, an asset, automatically requires the recognition of another element, for example, revenue or a liability. In particular, advances received or prepayments would result in the recognition of a corresponding liability or asset being recognised, since these transactions arise from an inflow or outflow of cash. This interrelationship is however not necessarily applicable in the case of secondary financial information, since these items are merely disclosed, and not recognised.
- .71 Transactions are the most common reason for recognising / recording and derecognising / removal of items. Events other than transactions may nevertheless also result in the recognition / recording and derecognition / removal of items. For example, an event such as the loss or destruction of an asset may result in the removal of that asset from the secondary financial information.

Measurement of the Elements of the Departmental Financial Statements

- .72 Measurement is the process of determining the monetary amounts at which the elements of the financial statements are to be recognised and carried in the Statement of Financial Position and Statement of Financial Performance, or recorded for disclosure as secondary financial information. This involves the selection of the particular basis of measurement. The individual chapters of this Standard will specify the appropriate measurement basis to use for a specific element.
- .73 The two common measurement bases applied in the Standard are historical cost and fair value:
- (a) for assets, **historical cost** is the amount of cash or cash equivalents paid or the fair value of the consideration given to acquire the asset at the time of its acquisition. For liabilities, historical cost is the amount of proceeds of cash or cash equivalents received or the fair value of non-cash assets received in exchange for the obligation at the time the obligation is incurred, or in some circumstances the amounts of cash or cash equivalents expected to be paid to settle the liability in the normal course of business.
 - (b) **fair value** is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Comparison with the Standards of GRAP

While certain concepts and definitions in this Chapter may be drawn from the Standards of GRAP, significant differences exist primarily due to the modified cash basis of accounting and established departmental reporting practices. These differences render a comparison impractical.

Chapter 3: Financial Statement Presentation

Chapter content

Objective	23
Scope	23
Definitions.....	23
Material.....	24
Modified Cash Standard.....	24
Purpose of financial statements.....	24
Components of financial statements	25
Primary and Secondary Financial Information	26
Fair presentation	26
Going concern	28
Modified cash basis of accounting	29
Materiality and aggregation.....	29
Consistency of Presentation	29
Offsetting	30
Comparative Information.....	30
Identification of the Departmental Financial Statements	31
Presentation of the Departmental Financial Statements	31
Other disclosures for arrangements.....	34
Comparison with GRAP 1 on Presentation of Financial Statements	35

This Chapter formed part of the original Standard published in 2013 and has since then been considered for improvement as part of the amendments process conducted by the National Treasury's Office of the Accountant-General, more specifically:

- Amendments to the Modified Cash Standard (Issued 31 March 2022); and
- Amendments to the Modified Cash Standard (Issued 31 March 2025).

Objective

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

Scope

- .02 **This Chapter shall be applied to all general purpose financial statements prepared and presented under the modified cash basis of accounting in accordance with this Standard.**
- .03 General purpose financial statements are those intended to meet the needs of users who are not in a position to demand reports tailored to meet their particular information needs. Users of general purpose financial statements include taxpayers and ratepayers, members of the legislature, creditors, suppliers, the media, and employees. General purpose financial statements include those that are presented separately or within another public document such as an annual report. This Chapter applies to the structure and content of condensed interim financial information.
- .04 This Chapter also applies to consolidated financial statements prepared in accordance with Chapter 18 on *Consolidated Financial Statements*.

Definitions

- .05 ***The following terms are used in this chapter with the meanings specified:***

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

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

Management comprises those persons responsible for planning, directing and controlling the activities of the department, including those charged with the governance of the department in accordance with legislation in instances where they are required to perform such functions.

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

Notes contain additional disaggregated financial information on transactions and balances that have been recognised and presented in the statement of financial position, statement of financial performance, statement of changes in net assets and cash flow statement (primary financial information). They are also used to provide other information that may be required by the Standard (secondary financial information).

Presentation currency is the currency in which the financial statements are presented (i.e. ZAR).

Recording refers to the recording of a transaction, event or balance in the financial records of the department for the purposes of disclosing secondary financial information in the financial statements.

Recognition is the process of incorporating in the statement of financial position or statement of financial performance an item that meets the definition of an element and satisfies the criteria for recognition. It involves the depiction of the item in words, and in monetary amounts, and the inclusion of those amounts in the primary statements' totals.

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

Reporting entity means the department for which the financial statements are prepared.

Terms defined in other chapters are used in this chapter with the same meaning as in those other chapters.

Material

- .06 Assessing whether an omission or misstatement could influence decisions of users, and so be material, requires consideration of the characteristics of those users. Users are assumed to have a reasonable knowledge of government, its activities, accounting and a willingness to study the information with reasonable diligence. Therefore, the assessment needs to take into account how users with such attributes could reasonably be expected to be influenced in making and evaluating decisions.

Modified Cash Standard

- .07 This Standard comprises separate chapters addressing financial statements topics. Guidelines explain the application of the principles included in the Standard to specific transactions, events, or circumstances. The authority of Guidelines is set out in each Guideline or in the Directives issued by the OAG.

Purpose of financial statements

- .08 Financial statements are a structured representation of the financial position and financial performance

of a department. The objective of general purpose financial statements is to provide information about the financial position, financial performance and cash flows of a department that is useful to a wide range of users in making and evaluating decisions about the allocation of resources.

- .09 General purpose financial statements can also have a predictive or prospective role, providing information useful in predicting the level of resources required for continued operations, the resources that may be generated by continued operations, and the associated risks and uncertainties. Financial reporting may also provide users with information:
- (a) indicating whether resources were obtained and used in accordance with the legally adopted budget; and
 - (b) indicating whether resources were obtained and used in accordance with legal and contractual requirements, including financial limits established by appropriate legislative authorities.

Components of financial statements

- .10 **A complete set of financial statements comprises:**
- (a) appropriation statement;**
 - (b) a statement of financial performance;**
 - (c) a statement of financial position;**
 - (d) a statement of changes in net assets;**
 - (e) a cash flow statement;**
 - (f) notes to the primary financial statements, comprising a summary of significant accounting policies and other explanatory notes; and**
 - (g) notes on secondary financial information;**
 - (h) comparative information in respect of the preceding period as specified in paragraphs .47 and .48.**
- .11 The financial statements provide users with information about a department's resources and obligations at the reporting date and the flow of resources between reporting dates. This information is useful for users making assessments of a department's ability to continue to provide goods and services at a given level, and the level of resources that may need to be provided to the department in the future so that it can continue to meet its service delivery obligations. The Appropriation Statement of departments shall provide information on whether resources were obtained and used in accordance with the legally adopted budget. Departments that make their approved budget(s) publicly available are required to comply with the requirements of Chapter 5 on *Appropriation Statement*.
- .12 Departments are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through legislation, appropriation or similar authorisation.
- .13 Departments may be required by legislation, regulations or similar documents described in legislation or regulations, to present additional information to assist users in assessing the performance of the department, and its stewardship of assets, as well as making and evaluating decisions about the allocation of resources. This additional information may include details about the department's outputs and outcomes in the form of performance indicators, statements of service performance, programme reviews and other reports by management about the department's achievements over the reporting

period.

- .14 Departments may be required by legislation, regulations or similar documents described in legislation or regulations, to disclose information about compliance with legislative, regulatory or other externally imposed regulations. When information about compliance is not included in the financial statements, it may be useful for a note to refer to any documents that include that information. Knowledge of non-compliance is likely to be relevant for accountability purposes and may affect a user's assessment of the department's performance and direction of future operations. It may also influence decisions about resources to be allocated to the department in the future.
- .15 In a complete set of financial statements, a department shall present each financial statement with equal prominence. Similarly, the notes to the financial statements should be presented with equal prominence regardless of whether they relate to primary or secondary financial information.

Primary and Secondary Financial Information

- .16 **Financial statements shall present primary financial information, consisting of recognised revenue, expenses, assets and liabilities presented in a statement of financial position, statement of financial performance, statement of changes in net assets and other primary financial statements such as the appropriation statement, cash flow statement, and notes thereto.**
- .17 Primary financial information disclosures relate to items of revenue, expenses, assets, and liabilities that have been recognised in accordance with the recognition criteria established by this Standard.
- .18 **Financial statements shall present secondary financial information that provides additional information about items of revenue, expenditure, assets and liabilities that have been recorded, but did not qualify for recognition in the primary financial statements as required by this Standard.**
- .19 **Financial statements shall present any other disclosures required by this Standard for the purposes of achieving fair presentation.**
- .20 The criteria for recording and disclosing secondary financial information in the notes to the financial statements are established in the relevant chapters of this Standard. The process of recording involves capturing sufficient information in supplementary schedules and registers (usually outside of the main financial accounting system) to enable the department to comply with the minimum disclosure requirements of this Standard. For example, the notes would include certain information about accruals, assets and liabilities that have not been recognised.
- .21 **The principles of fair presentation, going concern, materiality and aggregation, consistency, offsetting and the presentation of comparative information, as explained in the following paragraphs, apply equally to the primary and secondary financial information presented in the financial statements.**

Fair presentation

- .22 **Financial statements shall present fairly the financial position, financial performance and cash flows of a department. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition**

criteria for assets, liabilities, revenue and expenses set out in the Standard. The application of the Standard with additional disclosures when necessary is presumed to result in financial statements that achieve fair presentation.

- .23 A department whose financial statements comply with the Standard shall make an explicit and unreserved statement of such compliance in the notes. Financial statements shall not be described as complying with the Standard unless they comply with all the requirements in each chapter.**
- .24** In virtually all circumstances, a fair presentation is achieved by compliance with applicable Chapters of this Standard. A fair presentation also requires a department:
- (a) to select and apply accounting policies in accordance with the requirements of the Chapter on *Accounting Policies, Changes in Accounting Estimates and Errors* (Chapter 4), which sets out a hierarchy of authoritative guidance that management considers in the absence of a Chapter that specifically applies to an item;
 - (b) to present information, including accounting policies, in a manner which provides relevant, reliable, comparable and understandable information; and
 - (c) to provide additional disclosures when compliance with the specific requirements in this Standard is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the department's financial position and financial performance.
- .25 Inappropriate accounting treatments are not rectified either by disclosure of the accounting policies used, or by notes or explanatory material.**
- .26** In the extremely rare circumstances when management, in consultation with the Office of the Accountant-General, concludes that compliance with a requirement of this Standard would be so misleading that it would conflict with the objective of this Standard with regard to fair presentation, the department shall depart from that requirement in the manner set out in paragraph .27.
- .27** The department must disclose the following in the financial statements:
- (a) that management has concluded that the financial statements present fairly the department's financial position, financial performance and cash flows;
 - (b) that it has complied with this Standard, except that it has departed from a particular requirement to achieve a fair presentation;
 - (c) the title of the Chapter of this Standard from which the department has departed, the nature of the departure, including the treatment that this Standard would require, the reason why that treatment would be so misleading in the circumstances that it would conflict with the objective of financial statements in the Chapter 2 on *Concepts and Principles*, and the treatment adopted; and
 - (d) for each period presented, the financial impact of the departure on each item in the financial statements that would have been reported in complying with the requirement.
- .28** When a department has departed from a requirement of this Standard in a prior period, and that departure affects the amounts recognised in the financial statements for the current period, it shall make the disclosures set out in paragraphs .27(c) and .27(d).
- .29** For the purpose of paragraphs .26 to .28, an item of information would conflict with the objective of financial statements when it does not represent faithfully the transactions, other events and conditions that it either purports to represent or could reasonably be expected to represent and, consequently, it would be likely to influence decisions made by users of financial statements. When assessing whether

complying with a specific requirement in a Chapter of this Standard would be so misleading that it would conflict with the objective of financial statements in Chapter 2, management considers:

- (a) why the objective of financial statements is not achieved in the particular circumstances; and
- (b) how the department's circumstances differ from those of other departments that comply with the requirement. If other departments in similar circumstances comply with the requirement, there is a rebuttable presumption that the department's compliance with the requirement would not be so misleading that it would conflict with the objective of financial statements in Chapter 2.

- .30 Departures from the requirements of this Standard in order to comply with statutory or legislative reporting requirements do not constitute departures that conflict with the objective of financial statements set out in paragraph .26. If such departures are material a department cannot claim compliance with this Standard.

Going concern

- .31 **When preparing financial statements, management shall make an assessment of a department's ability to continue as a going concern. Financial statements shall be prepared on a going concern basis unless there is an intention to cease operating, or if there is no realistic alternative but to do so. When management is aware, in making this assessment, of material uncertainties related to events or conditions which may cause significant doubt upon the department's ability to continue as a going concern, those uncertainties shall be disclosed. When the financial statements are not prepared on a going concern basis, that fact shall be disclosed, together with the basis on which the financial statements are prepared and the reason why the department is not regarded as a going concern.**
- .32 Financial statements are normally prepared on the assumption that the department is a going concern and will continue in operation or some modified form, for example a merger, and meet its statutory and financial obligations for the foreseeable future. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the reporting date.
- .33 The degree of consideration depends on the facts in each case, and assessments of the going concern assumption are not predicated on the solvency test usually applied to business enterprises. There may be circumstances where the usual going concern tests of liquidity and solvency appear unfavourable, but other factors suggest that the department is nonetheless a going concern. For example, there may be multi-year funding agreements, or other arrangements, in place that will ensure the continued operation of the department.
- .34 The determination of whether the going concern assumption is appropriate is primarily relevant for individual departments rather than for government as a whole. For individual departments, in assessing whether the going concern basis is appropriate, management may need to consider a wide range of factors surrounding current and expected performance, expected short and medium term economic environment in which the department operates, potential and announced restructurings of functions, estimates of revenue or the likelihood of continued government funding, before it is appropriate to conclude that the going concern assumption is appropriate.

Modified cash basis of accounting

- .35 **A department shall prepare its financial statements, except for cash flow information which is cash-based, using the modified cash basis of accounting prescribed by the Office of the Accountant-General.**
- .36 When the modified cash basis of accounting is used, items are recognised or recorded as assets, liabilities, net assets, revenue and expenses (the elements of financial statements) when they satisfy the definitions and recognition/recording criteria for those elements in Chapter 2.

Materiality and aggregation

- .37 **Each material class of similar items shall be presented separately in the financial statements. Items of a dissimilar nature or function shall be presented separately unless they are immaterial.**
- .38 Financial statements result from processing large numbers of transactions or other events that are aggregated into classes according to their nature or function. The final stage in the process of aggregation and classification is the presentation of condensed and classified data which form line items on the face of the statement of financial position, statement of financial performance, statement of changes in net assets and cash flow statement, or in the notes. If a line item is not individually material, it is aggregated with other items either on the face of those statements or in the notes. An item that is not sufficiently material to warrant separate presentation on the face of those statements may nevertheless be sufficiently material for it to be presented separately in the notes.
- .39 When applying this and other chapters in the Standard, a department shall decide, taking into consideration all relevant facts and circumstances, how it aggregates information in the financial statements, which includes the notes. A department shall not reduce the understandability of its financial statements by obscuring material information with immaterial information or by aggregating material items that have different natures or functions.
- .40 Some chapters of the Standard specify information that is required to be included in the financial statements, which include the notes. Applying the concept of materiality means that a specific disclosure requirement in a chapter in this Standard need not be satisfied if the information is not material. This is the case even if a Chapter contains a list of specific requirements or describes them as minimum requirements. A department shall also consider whether to provide additional disclosures when compliance with the specific requirements in a chapter of this Standard is insufficient to enable the users of financial statements to understand the impact of particular transactions, other events and conditions on the department's financial position and financial performance.
- .41 For purposes of consistency and to ensure the needs of the primary users of the financial statements are met, guidance on the level of aggregation and classification may be issued by the Office of the Accountant-General. This application guidance, in the form of specimen financial statements, is issued as a separate publication.

Consistency of Presentation

- .42 **The presentation and classification of items in the financial statements shall be retained from one period to the next unless a change is required in terms of the Standard.**
- .43 **The Standard recognises the Economic Reporting Format (ERF) issued by the National Treasury**

as the standard for the classification of revenue and expenditure by departments.

- .44 When the presentation or classification of items in the financial statements is changed, a department shall reclassify comparative amounts unless the reclassification is impracticable.**

Offsetting

- .45 Assets and liabilities, revenue and expenses, shall not be offset unless required or permitted by this Standard or Legislation.**
- .46 It is important that assets and liabilities, and revenue and expenses, are reported separately. Offsetting in the statement of financial performance or the statement of financial position, except where offsetting reflects the substance of the transaction or other event, detracts from the ability of users to understand the transactions, other events and conditions that have occurred and to assess the department's future cash flows.

Comparative Information

- .47 Except when the Standard permits or requires otherwise, comparative information shall be disclosed in respect of the previous period for all amounts reported in the financial statements. Comparative information shall be included for narrative and descriptive information when it is relevant to an understanding of the current period's financial statements.**
- .48 A department shall present, as a minimum, two statements of financial position, two statements of financial performance, two cash flow statements and two statements of changes in net assets, and related notes.
- .49 In some cases, narrative information provided in the financial statements for the preceding period(s) continues to be relevant in the current period. For example, details of a legal dispute, the outcome of which was uncertain at the end of the preceding period and is yet to be resolved, are disclosed in the current period. Users may benefit from information that the uncertainty existed at the preceding period, and about the steps that have been taken during the period to resolve the uncertainty.
- .50 When comparative amounts are reclassified, a department shall disclose the following:
- (a) the nature of the reclassification;
 - (b) the amount of each item or class of items that is reclassified; and
 - (c) the reason for the reclassification.
- .51 When it is impracticable to reclassify comparative amounts, a department shall disclose:
- (a) the reason for not reclassifying amounts; and
 - (b) the nature of the adjustments that would have been made if the amounts had been reclassified.
- .52 Enhancing the inter-period comparability of information assists users in making and evaluating decisions, especially by allowing the assessment of trends in financial information for predictive purposes. In some circumstances it is impracticable to reclassify comparative information for a particular preceding period to achieve comparability with the current period. For example, data may not have been collected in the preceding period(s) in a way that allows reclassification, and it may not be practicable to recreate the information.

Identification of the Departmental Financial Statements

- .53 The financial statements shall be identified clearly, and distinguished from other information in the same published document.**
- .54** This Standard applies only to the departmental financial statements, and not to other information presented in the annual report or other document. Therefore, it is important that the users can distinguish information that is prepared using this Standard from other information that may be useful to users but is not the subject of those requirements.
- .55 Each component of the financial statements shall be identified clearly. In addition, the following information shall be displayed prominently, and repeated when it is necessary for a proper understanding of the information presented:**
- (a) the name of the reporting department or other means of identification, and any change in that information from the proceeding reporting date;**
 - (b) whether the financial statements cover the individual department or the economic entity;**
 - (c) the reporting date or the period covered by the financial statements, whichever is appropriate to the component of the financial statements;**
 - (d) the presentation currency; and**
 - (e) the level of rounding used in presenting amounts in the financial statements.**
- .56** The requirements in paragraph .55 are normally met by presenting page headings and abbreviated column headings on each page of the financial statements.
- .57** Financial statements are often made more understandable by presenting information in thousands of the presentation currency. This is acceptable as long as the level of rounding in presentation is disclosed and material information is not omitted.

Presentation of the Departmental Financial Statements

Current/non-current distinction

- .58 A department shall present current and non-current assets, and current and non-current liabilities, as separate classifications on the face of its statement financial position.**
- .59** When a department supplies goods or services within a clearly identifiable operating cycle, separate classification of current and non-current assets and liabilities on the face of the statement of financial position provides useful information by distinguishing the net assets that are continuously circulating as working capital from those used in the department's long-term operations (where applicable). It also highlights assets that are expected to be realised within the current operating cycle, and liabilities that are due for settlement within the same period.

Current assets

- .60 An asset shall be classified as current when it satisfies any of the following criteria:**
- (a) it is expected to be realised in, or is held for sale or consumption in, the department's normal operating cycle;**
 - (b) it is held primarily for the purpose of being traded;**

- (c) it is expected to be realised within twelve months after the reporting date; or**
- (d) it is cash or a cash equivalent asset (as defined in Chapter 6 on *Cash Flow Statements*) unless it is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting date.**

All other assets shall be classified as non-current.

- .61 This Chapter uses the term “non-current assets” to include financial assets of a long-term nature. It does not prohibit the use of alternative descriptions as long as the meaning is clear.
- .62 The operating cycle of a department is the time taken to convert inputs or resources into outputs. For instance, the time taken to convert resources into goods and services, or outputs, to meet the department’s service delivery objectives. When the department’s normal operating cycle is not clearly identifiable, its duration is assumed to be twelve months. Current assets include assets that are either realised, consumed or sold, as part of the normal operating cycle even when they are not expected to be realised within twelve months of the reporting date. Current assets also include some financial assets (Chapter 9 on *General Departmental Assets and Liabilities* provides guidance on the classification of financial assets) and the current portion of non-current financial assets.

Current liabilities

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

- (a) it is expected to be settled in the department’s normal operating cycle;**
- (b) it is held primarily for the purpose of being traded; or**
- (c) it is due to be settled within twelve months after the reporting date.**

All other liabilities shall be classified as non-current.

- .64 Some current liabilities are part of the working capital used in the normal operating cycle of the department. Such operating items are classified as current liabilities even if they are due to be settled more than twelve months after the reporting date. The same normal operating cycle applies to the classification of a department’s assets and liabilities. When the department’s normal operating cycle is not clearly identifiable, its duration is assumed to be twelve months.
- .65 Other current liabilities are not settled as part of the normal operating cycle, but are due for settlement within twelve months after the reporting date or held primarily for the purpose of being traded. Examples are some financial liabilities (Chapter 9 provides guidance on the classification of financial liabilities), bank overdrafts, and the current portion of non-current financial liabilities, dividends or similar distributions payable and other non-trade payables. Financial liabilities that provide financing on a long-term basis (i.e. are not part of the working capital used in the department’s normal operating cycle), and are not due for settlement within twelve months after the reporting date, are non-current liabilities.

Information presented on the face of the statement of financial position

- .66 **The face of the statement of financial position shall include separate line items that represent material aggregations of recognised assets and liabilities.**

Information presented on the face of the statement of financial performance

- .67 **The face of the statement of financial performance shall include the following broad classifications, with additional detail being provided for all material sub-classifications of revenue and expenditure that have been recognised during the period. The following reporting**

format shall be used as a minimum:

- (a) revenue;
- (b) expenditure;
- (c) surplus/(deficit) for the year; and
- (d) a reconciliation of net surplus/(deficit) for the year.

Statement of changes in net assets

- .68 A department shall present, on the face of the statement of changes in net assets, to the extent that components of net assets are separately disclosed, a reconciliation between the carrying amount of each component of net assets and each reserve at the beginning and the end of the period, separately disclosing each change.
- .69 Changes in a department's net assets between two reporting dates reflect the increase or decrease in its net assets during the period.

Cash flow statement

- .70 Cash flow information provides users of financial statements with a basis to assess the ability of the department to generate cash and cash equivalents and the needs of the department to utilise those cash flows. Chapter 6 on *Cash Flow Statements* sets out requirements for the presentation of the cash flow statement and related disclosures.

Notes

- .71 The notes to the departmental financial statements:
 - (a) shall disclose information about the basis of preparation of the financial statements and the specific accounting policies used;
 - (b) disclose the information required by this Standard that is not presented on the face of the statement of financial position, statement of financial performance, statement of changes in net assets, cash flow statement or appropriation statement; and
 - (c) provide additional information that is not presented on the face of the statement of financial position, statement of financial performance, statement of changes in net assets, cash flow statement or appropriation statement, but is relevant to an understanding of any of them.
- .72 Notes provide information about the basis of preparation of the financial statements and specific accounting policies shall be presented as a separate component of notes the financial statements.
- .73 A department shall disclose, along with its significant accounting policies or other notes, the judgements, apart from those involving estimations, management has made in the process of applying the department's accounting policies that have the most significant effect on the amounts recognised or recorded in the financial statements.
- .74 In the process of applying the department's accounting policies, management makes various judgements, apart from those involving estimations, that can significantly affect the amounts of items recognised in the financial statements. For example, management makes judgements in determining
 - (a) whether assets are investment properties;
 - (b) when substantially all the significant risks and rewards of ownership of lease assets are transferred to or from other entities;

- (c) whether spending on an existing asset is of a current or capital nature.

Other disclosures for arrangements

- .75 To the extent that a department is party to a Public Private Partnership (PPP), it shall disclose, as part of the secondary financial information, the following information to enable the users to determine the impact of the PPP on the department:
- (a) a description of the nature and amount of any contract fees paid to the private party pursuant to the PPP agreement;
 - (b) a description of the nature and amount of any revenue from the private party pursuant to the PPP agreement;
 - (c) a general description of the significant terms of the PPP agreement, along with a description of the parties to the agreement, and the date of commencement thereof;
 - (d) an analysis of contract fees paid;
 - (e) the value of any rights, including tangible or intangible capital assets and current assets controlled by the department in terms of the PPP agreement; and
 - (f) the value of any other obligations the department might have in terms of the PPP agreement, including leases.

Comparison with GRAP 1 on Presentation of Financial Statements

This Chapter is primarily drawn from GRAP 1. The main differences between this Chapter and GRAP 1 are as follows:

- The Chapter requires the preparation of a separate appropriation statement, GRAP 1 requires either a statement or separate columns in the financial statements of an entity.
- A departure from the MCS may only be done in consultation with the Office of the Accountant-General, the equivalent section in GRAP requires consideration of the regulatory framework.
- The Chapter refers to the ERF for the classification of expenditure to facilitate alignment with budget accounting and reporting. GRAP 1 does not refer to any budget classification framework.
- The Chapter does not include disclosures on share or contributed capital as it is not relevant to departments.
- The Chapter includes disclosure requirements for PPPs entered into by departments because there is currently no equivalent Chapter to GRAP 32 *on Service Concession Arrangements: Grantor*.

Chapter 4: Accounting Policies, Estimates And Errors

Chapter content

Objective	38
Scope	38
Definitions.....	38
Materiality	39
Accounting policies	39
Consistency of accounting policies	40
Changes in accounting policies	40
Disclosures.....	41
Changes in accounting estimates	41
Disclosures.....	42
Errors.....	42
Disclosures.....	43
Impracticability in respect of retrospective application and retrospective restatement.....	43
Comparison to GRAP 3 on Accounting Policies, Changes in Accounting Estimates and Errors	45

This Chapter formed part of the original Standard published in 2013 and has since then been considered for improvement as part of the amendments process conducted by the National Treasury's Office of the Accountant-General, more specifically:

- Amendments to the Modified Cash Standard (Issued 31 March 2022); and
- Amendments to the Modified Cash Standard (Issued 31 March 2025).

Objective

- .01 The objective of this Chapter is to provide guidance for selecting and applying the accounting policies used in preparing financial statements. It also covers changes in accounting estimates and correction of errors in the prior period financial statements.
- .02 The requirements of this Chapter apply equally to both the primary and secondary financial information presented in the financial statements.

Scope

- .03 A department that prepares and presents financial statements under the modified cash basis of accounting shall apply this Chapter in selecting and applying accounting policies, and accounting for changes in accounting policies, changes in accounting estimates and corrections of prior period errors.

Definitions

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

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

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

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

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

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

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

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

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

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

Terms defined in other chapters are used in this chapter with the same meaning as in those other chapters.

Materiality

- .05 Assessing whether an omission or misstatement could influence decisions of users, and so be material, requires consideration of the characteristics of those users. Users are assumed to have a reasonable knowledge of the public sector and economic activities and accounting and a willingness to study the information with reasonable diligence. Therefore, the assessment needs to take into account how users with such attributes could reasonably be expected to be influenced in making and evaluating decisions.

Accounting policies

Selection and application of accounting policies

- .06 **When a chapter specifically applies to a transaction, other event or condition, the accounting policy or policies applied to that item shall be determined by applying the Chapter and considering any relevant Interpretations and Directives issued by the Office of the Accountant-General for the chapter.**
- .07 This Standard sets out the accounting policies that will result in financial statements containing relevant and reliable information about the transactions, other events and conditions to which they apply. Those policies need not be applied when the effect of applying them is immaterial. However, it is inappropriate to make, or leave uncorrected, immaterial departures from the Standard to achieve a particular presentation of a department's financial position, financial performance or cash flows.
- .08 Where a Chapter does not specifically apply to a transaction, other event or condition, management shall use its judgement in developing and applying an accounting policy that results in information that is:
- (a) relevant to the economic decision-making needs of users; and
 - (b) reliable, in that the financial statements and or notes:
 - (i) represent faithfully the financial position, financial performance and cash flows of the department;
 - (ii) reflect the economic substance of transactions, other events and conditions, and not merely the legal form;
 - (iii) are neutral, i.e. free from bias;
 - (iv) are prudent; and
 - (c) are complete in all material respects.
- .09 In making the judgement described in paragraph .06, management is encouraged to seek guidance from the Office of the Accountant-General so as to ensure consistent treatment on consolidation, and should refer to and consider the applicability of, the definitions, recognition criteria and measurement concepts for assets, liabilities, revenue and expenses set out in Chapter 2 on *Concepts and Principles*.

Consistency of accounting policies

- .10 **A department shall select and apply its accounting policies consistently for similar transactions, other events and conditions, unless the Standard specifically requires or permits categorisation of items for which different accounting policies may be appropriate. If the Standard requires or permits such categorisation, an appropriate accounting policy shall be selected and applied consistently to each category.**

Changes in accounting policies

- .11 **A department shall change an accounting policy only if the change is required by the Standard.**
- .12 Users of financial statements need to be able to compare the financial statements of a department over time to identify trends in its financial information. Therefore, the same accounting policies are applied within each period and from one period to the next unless a change in an accounting policy is required by the Standard. Similarly, the comparability of the financial statements of a department in relation to other departments may be negatively affected where different accounting policies are applied. Where a change is required, the relevant Chapter will clarify how the current and historical information should be amended to effect the change.
- .13 **The following are not changes in accounting policies:**
 - (a) **the application of an accounting policy for events or transactions, other events or conditions that differ in substance from those previously occurring; and**
 - (b) **the application of a new accounting policy for transactions, other events or conditions that did not occur previously or that were previously immaterial.**
- .14 **The Standard will indicate whether the change should be made prospectively or retrospectively.**

Retrospective application

- .15 **When a change in accounting policy is applied retrospectively, the department adjusts its opening balance of each affected amount for the earliest period presented or disclosed as if the new accounting policy had always been applied.**

Limitations on retrospective application

- .16 **When it is impracticable to determine the period-specific effects of changing an accounting policy on comparative information or one or more prior periods, the department applies the new accounting policy to the carrying amounts of assets and liabilities as at the beginning of the earliest period for which retrospective application is practicable, which may be the current period, and shall make a corresponding adjustment to the opening balance of each affected amount for that period.**
- .17 **When it is impracticable to determine the cumulative effect, at the beginning of the current period, of applying a new accounting policy to all prior periods, the department adjusts the comparative information to apply the new accounting policy prospectively from the earliest date practicable.**
- .18 **When a department applies a new accounting policy retrospectively, it applies the new accounting policy to comparative information for prior periods as far back as is practicable. Retrospective application to a prior period is not practicable unless it is practicable to determine the cumulative effect on the amounts.**

The amount of the resulting adjustment relating to periods before those presented and/or disclosed in the financial statements is made to the opening balance of each affected component of net assets of the earliest prior period presented.

- .19 When it is impracticable for a department to apply a new accounting policy retrospectively, because it cannot determine the cumulative effect of applying the policy to all prior periods, the department, in accordance with paragraph .16, applies the new policy prospectively from the start of the earliest period practicable. It therefore disregards the portion of the cumulative adjustment to assets, liabilities and net assets arising before that date. Changing an accounting policy is permitted even if it is impracticable to apply the policy prospectively for any prior period. Paragraphs .39 to .42 provide guidance on when it is impracticable to apply a new accounting policy to one or more prior periods.

Disclosures

- .20 **A department shall present information about the basis of preparation of the financial statements and the specific accounting policies used in preparing and presenting / disclosing the information.**
- .21 **Where there is a change an accounting policy, a department shall disclose:**
- (a) the nature of the change in accounting policy;**
 - (b) the amount of the adjustment for each financial statement line item affected, including secondary financial information, for the applicable reporting periods;**

Financial statements of subsequent periods need not repeat these disclosures.

Changes in accounting estimates

- .22 As a result of the uncertainties inherent in delivering services, conducting trading or other activities, some items that form part of the secondary information in the financial statements cannot be measured with precision but can only be estimated. Estimation involves judgements based on the latest available, reliable information.
- .23 The use of reasonable estimates is an essential part of the preparation of financial statements and does not undermine their reliability.
- .24 An estimate may need revision if changes occur in the circumstances on which the estimate was based or as a result of new information or more experience. By its nature, the revision of an estimate does not relate to prior periods and is not the correction of an error.
- .25 A change in the measurement basis applied is a change in an accounting policy, and is not a change in an accounting estimate. When it is difficult to distinguish a change in an accounting policy from a change in an accounting estimate, the change is treated as a change in an accounting estimate.
- .26 **The effect of a change in an accounting estimate shall be recognised prospectively by**
- (a) including it in surplus or deficit in (i) the period of the change, if the change affects that period only or (ii) the period of the change and future periods, if the change affects both;**
 - (b) adjusting the carrying amount of any asset, liability or item of net assets in the period of the change.**
- .27 Prospective recognition of the effect of a change in an accounting estimate means that the change is

applied to transactions, other events and conditions from the date of the change in estimate.

Disclosures

- .28 **A department shall disclose the nature and amount of a change in an accounting estimate that has an effect in the current period or is expected to have an effect in future periods, except for the disclosure of the effect on future periods when it is impracticable to estimate that effect.**
- .29 **If the amount of the effect in future periods is not disclosed because estimating it is impracticable, a department shall disclose that fact.**

Errors

- .30 Errors can arise in respect of the recording, recognition, measurement, presentation or disclosure of elements in the financial statements and or notes. Financial statements do not comply with the Standard if they contain either material errors or immaterial errors made intentionally to achieve a particular presentation. Potential current period errors discovered in that period are investigated and corrected before the financial statements are authorised for issue. However, material errors are sometimes not discovered until a subsequent period, and these prior period errors are corrected in the comparative information presented in the financial statements for that subsequent period.
- .31 Subject to paragraph .32, a department shall correct material prior period errors retrospectively in the first set of financial statements authorised for issue after their discovery by:
 - (a) restating the comparative amounts for the prior period(s) presented in which the error occurred; or
 - (b) if the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and net assets for the earliest prior period presented or disclosed.

Limitations on retrospective restatement

- .32 **A prior period error shall be corrected by retrospective restatement except to the extent that it is impracticable to determine either the period-specific effects or the cumulative effect of the error.**
- .33 **When it is impracticable to determine the period-specific effects of an error on comparative information for one or more prior periods the department shall restate the opening balances of recognised assets, liabilities and net assets for the earliest period for which retrospective restatement is practicable (which may be the current period). Similarly, opening balances reflected in the secondary financial information that are affected by a prior period error shall be restated accordingly.**
- .34 **When it is impracticable to determine the cumulative effect, at the beginning of the current period, of an error on all prior periods, the department shall restate the comparative information to correct the error prospectively from the earliest date practicable.**
- .35 When it is impracticable to determine the amount of an error (e.g. a mistake in applying an accounting policy) for all prior periods, the department, in accordance with paragraph .33, restates the comparative information prospectively from the earliest date practicable. It therefore disregards the portion of the cumulative restatement of amounts arising before that date. Paragraphs .39 to .42 provide guidance on when it is impracticable to correct an error for one or more prior periods.
- .36 Corrections of errors are distinguished from changes in accounting estimates. Accounting estimates

by their nature are approximations that may need revision as additional information becomes known.

Disclosures

- .37 A department shall disclose the following:**
- (a) the nature of the prior period error;**
 - (b) for each prior period presented, to the extent practicable, the amount of the correction for each line item affected;**
 - (c) the amount of the correction at the beginning of the earliest prior period presented;**
 - (d) the impact on voted funds to be surrendered (where applicable); and**
 - (e) if retrospective restatement is impracticable for a particular prior period, the circumstances that led to the existence of that condition and a description of how and from when the error has been corrected.**
- .38 Financial statements of subsequent periods need not repeat disclosures required by paragraph .37 above.**

Impracticability in respect of retrospective application and retrospective restatement

- .39** In some circumstances, it is impracticable to adjust comparative information for one or more prior periods to achieve comparability with the current period. For example, data may not have been collected in the prior period(s) in a way that allows either retrospective application of a new accounting policy (including, for the purpose of paragraphs .40 to .42, its prospective application to prior periods) or retrospective restatement to correct a prior period error, and it may be impracticable to recreate the information.
- .40** It is frequently necessary to make estimates in applying an accounting policy to elements of financial statements recognised or disclosed in respect of transactions, other events or conditions. Estimation is inherently subjective, and estimates may be developed after the reporting date. Developing estimates is potentially more difficult when retrospectively applying an accounting policy or making a retrospective restatement to correct a prior period error, because of the longer period of time that might have passed since the affected transaction, other event or condition occurred. However, the objective of estimates related to prior periods remains the same as for estimates made in the current period, namely, for the estimate to reflect the circumstances that existed when the transaction, other event or condition occurred.
- .41** Therefore, retrospectively applying a new accounting policy or correcting a prior period error requires distinguishing information that:
- (a) provides evidence of circumstances that existed on the date(s) as at which the transaction, other event or condition occurred; and**
 - (b) would have been available when the financial statements for that prior period were authorised for issue from other information. For some types of estimates (e.g. an estimate of fair value not based on an observable price or observable inputs), it is impracticable to distinguish these types of information. When retrospective application or retrospective restatement would require making a significant estimate for which it is impossible to distinguish these two types of information, it is impracticable to apply the new accounting policy or correct the prior period error retrospectively.**

- .42 Hindsight should not be used when applying a new accounting policy to, or correcting amounts for, a prior period, either in making assumptions about what management's intentions would have been in a prior period or estimating the amounts recognised/recorded, measured, or disclosed in a prior period. The fact that significant estimates are frequently required when amending comparative information presented for prior periods does not prevent reliable adjustment or correction of the comparative information.

Comparison to GRAP 3 on Accounting Policies, Changes in Accounting Estimates and Errors

This Chapter is primarily drawn from GRAP 3. The main differences between this Chapter and GRAP 3 are as follows:

- This Chapter encourages departments to seek guidance from the Office of the Accountant-General when management uses its judgement in developing accounting policies for a transaction, other event, or condition not addressed in a Chapter of this Standard. GRAP 3 refers management to pronouncements of other standard-setting bodies and accepted public or private sector practices.
- A department changes its accounting policy/ies only when permitted by this Standard. GRAP 3 guides entities on voluntary changes in their accounting policy/ies.
- GRAP 3 identifies a change to the cost model when a reliable measure of fair value is not available (or vice versa) as not being a change in accounting policy. This Standard has excluded this provision as the fair value model for subsequent measurement is not permitted in this Standard.
- The guidance in GRAP 3 on applying changes in accounting policies has not been included in this Chapter because the Standard will always specify how and when changes in accounting policies should be applied.

Chapter 5: Appropriation Statement

Chapter content

Objective	48
Scope	48
Definitions.....	48
Purpose of the appropriation statement.....	48
Approved and final appropriations	49
Presentation and disclosure of a comparison of budget and actual amounts	50
Comparison with GRAP 24 on Presentation of Budget Information in Financial Statements	51

This Chapter formed part of the original Standard published in 2013 and has since then been considered for improvement as part of the amendments process conducted by the National Treasury's Office of the Accountant-General, more specifically:

- Amendments to the Modified Cash Standard (Issued 31 March 2022); and
- Amendments to the Modified Cash Standard (Issued 31 March 2025).

Objective

- .01 The objective of this Chapter is to prescribe the preparation of a comparison of budget amounts and the actual amounts arising from execution of the budget for inclusion in the financial statements of departments.
- .02 The Chapter also requires disclosure of an explanation of the reasons for material differences between the budget and actual amounts. Compliance with the requirements of this Chapter will ensure that departments discharge their accountability obligations and enhance the transparency of their financial statements by demonstrating compliance with the approved budget(s) for which they are held publicly accountable and their financial performance in achieving the budgeted results.

Scope

- .03 **A department that prepares and presents financial statements under the modified cash basis of accounting shall apply this Chapter in preparing the appropriation statement and the related disclosures, as part of its primary financial information.**

Definitions

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

Actual amounts describe the amounts that result from execution of the budget.

Annual budget means an approved budget for one year. It does not include published forward estimates or projections for periods beyond the budget period.

Appropriation is an authorisation granted by Parliament and or the legislatures approving the budget to allocate funds for purposes specified by Parliament and or the legislatures.

Approved budget means the expenditure authority derived from laws, appropriation bills, regulations and other decisions related to the anticipated revenue or receipts for the budgetary period.

Final budget is the approved budget adjusted for transfers, allocations, supplemental appropriations, and other changes applicable to the budget period.

Terms defined in other chapters are used in this Chapter with the same meaning as in those other chapters.

Purpose of the appropriation statement

- .05 The primary focus within South African government is service delivery and the fulfilment of the institutional mandates of departments. Annual appropriations, received by departments, serve as the primary funding for the fulfilment of the service delivery obligations of departments. The performance of departments is therefore informed by the extent to which their service delivery obligations are executed and the manner in which their appropriations are utilised in the fulfilment of their objectives.
- .06 Appropriations to departments are made on the basis of their budgets. It is important to take into

consideration that the budgets of the departments are based on the strategic plans of the departments. As such, the budget of a department is a quantification of the strategic priorities of the department. The division of the department's budget into the different programmes of the department is therefore indicative of strategic objectives of the department. Accordingly, the appropriation statements provide the users of the financial statements with an indication of how the department utilised its budget to achieve its strategic priorities.

- .07 Taking into consideration that the budget process of departments allows for adjustments to the budget, for those instances where circumstances require a change, the appropriation statement should also reflect the changes made to the budget during the year. Through the reflection of the changes in the budget, the users of the financial statements are provided with a better understanding of the manner in which the budget was utilised by the department.
- .08 As such, the appropriation statement should reflect the budget, with other changes thereto that occurred during the year to arrive at the final budget of the department.

Approved and final budgets

- .09 An approved appropriation reflects the anticipated revenues or receipts expected to be raised in the annual budget period based on current plans and the anticipated economic conditions during that budget period, and expenses or expenditures approved by the legislative body, being Parliament or the provincial legislatures. An approved appropriation is not a forward estimate or a projection based on assumptions about future events and possible management actions that are not necessarily expected to take place. As such, the approved appropriation is a reflection of a department's approved budget.
- .10 The critical feature of approved budgets is that the authority to withdraw funds from the relevant revenue fund for agreed and identified purposes is provided by Parliament or the provincial legislatures. The approved budget establishes the expenditure authority and is generally considered the legal limit within which a department must operate.
- .11 Departments, through the budget process are appropriated funds by Parliament or the provincial legislatures, which are to be spent in accordance with certain priorities. The budget for the financial year is usually approved before the start of the financial year or, in exceptional circumstances, on a date as soon as possible after the start of that financial year. Subsequent to this initial budget being approved, it might become necessary to revise the initial estimates of revenue and expenditure due to for example, increased collection of revenue, unforeseen and unavoidable expenditure being incurred, the reallocation of funds between activities or types of expenses, the use of savings generated, or the roll-over of unspent funds from prior years. These adjustment budgets are required by legislation to be approved again by Parliament or the provincial legislatures. The most recent budget approved by Parliament or the provincial legislatures is the approved budget for purposes of this Chapter.
- .12 Departments are allowed to make certain changes to the budget after it was previously approved by Parliament or the provincial legislatures. For example, departments are allowed to reallocate funds between programmes subject to limitations in legislation. These changes to the approved budget may in some instances not be formally approved again by Parliament or the provincial legislatures. The final budget, for purposes of this Chapter, is the most recently approved budget, adjusted for changes made to the budget by the department.
- .13 Departments should as far as possible ensure that the budget expenditure classifications are aligned to the nature of the actual expenditure at the reporting date.

Presentation and disclosure of a comparison of budget and actual amounts

- .14 **A department shall present a comparison of the budget amounts for which it is held publicly accountable and actual amounts as a separate additional financial statement. The comparison shall present the following per programme and sub-programme as well as per economic classification:**
 - (a) **the approved and final budget amounts, showing separately the changes made to the approved budget;**
 - (b) **the actual expenditure;**
 - (c) **variances, if any, between actual expenditure and the final budget as well as actual expenditure as % of final budget; and**
 - (d) **a reconciliation of the budget with the statement of financial performance.**
- .15 **Presentation in the financial statements of the approved and final budget amounts and the actual amounts will complete the accountability cycle by enabling users of the financial statements to identify whether resources were obtained and used in accordance with the approved budget. In addition, users can assess management decisions with regard to virements.**
- .16 **A department shall by way of note, provide an explanation of material differences between the budget and actual amounts as well as an explanation of any classification differences between the appropriation statement and the statement of financial performance.**
- .17 **An explanation of the material differences between actual amounts and the budget amounts will assist users in understanding the reasons for material departures from the approved budget for which the department is held publicly accountable.**
- .18 **The appropriation statement shall also reflect the final budget and actual amounts for the comparative period. This comparative information shall be presented for the total final budget per programme and sub-programme as well as the final budget per economic classification.**

Comparison with GRAP 24 on Presentation of Budget Information in Financial Statements

While certain concepts, definitions, and disclosures in this Chapter are drawn from GRAP 24, significant differences exist primarily due to the modified cash basis of accounting and established departmental reporting practices. These differences render a comparison impractical.

Chapter 6: Cash Flow Statements

Chapter content

Objective	54
Scope	54
Benefits of cash flow information	54
Definitions.....	55
Cash and cash equivalents	55
Presentation of a cash flow statement	55
Operating activities	56
Investing activities	56
Financing activities.....	57
Reporting cash flows from operating activities	57
Reporting cash flows from investing and financing activities.....	58
Reporting cash flows on a net basis	58
Foreign currency cash flows	58
Interest and dividends or similar distributions.....	59
Non-cash transactions	59
Components of cash and cash equivalents	60
Other disclosures	60
Comparison with GRAP 2 on Cash Flow Statements.....	61

This Chapter formed part of the original Standard published in 2013 and has since then been considered for improvement as part of the amendments process conducted by the National Treasury's Office of the Accountant-General, more specifically:

- Amendments to the Modified Cash Standard (Issued 31 March 2025); and
- Consequential amendments following the issue of Chapter 21 on *The Effects Of Changes In Foreign Exchange Rates* (Issued 31 March 2025).

Objective

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

Scope

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

Benefits of cash flow information

- .04 Information about the cash flows of a department is useful in assisting users to predict the future cash requirements of the department, its ability to generate cash flows in the future and fund changes in the scope and nature of its activities. A cash flow statement also provides a means by which a department can discharge its accountability for cash inflows and cash outflows during the reporting period.
- .05 A cash flow statement, when used in conjunction with other financial statements, provides information that enables users to evaluate the changes in net assets of a department, its financial structure (including its liquidity and solvency) and its ability to affect the amounts and timing of cash flows in order to adapt to changing circumstances and opportunities. It also enhances the comparability of the reporting of operating performance by different entities, because it eliminates the effects of using different accounting treatments for the same transactions and other events.
- .06 Historical cash flow information is often used as an indicator of the amount, timing and certainty of future cash flows. It is also useful in checking the accuracy of past assessments of future cash flows.

Definitions

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

Cash comprises cash on hand and demand deposits.

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

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

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

Investing activities are the acquisition and disposal of capital assets and other investments not included in cash equivalents.

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

Terms defined in other chapters are used in this Chapter with the same meaning as in those other chapters.

Cash and cash equivalents

- .08 Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes. For an investment to qualify as a cash equivalent it must be readily convertible to a known amount of cash and be subject to an insignificant risk of changes in value. Therefore, an investment normally qualifies as a cash equivalent only when it has a short maturity of, say, three months or less from the date of acquisition. Equity investments are excluded from cash equivalents unless they are, in substance, cash equivalents.
- .09 Bank borrowings are generally considered to be financing activities. Bank overdrafts which are repayable on demand may form an integral part of a department's cash management activities. In these circumstances, bank overdrafts are included as a component of cash and cash equivalents in the cash flow statement. A characteristic of such banking arrangements is that the bank balance often fluctuates from being positive to overdrawn.
- .10 Cash flows exclude movements between items that constitute cash or cash equivalents because these components are part of the cash management of a department rather than part of its operating, investing and financing activities. Cash management includes the investment of excess cash in cash equivalents.

Presentation of a cash flow statement

- .11 **The cash flow statement shall report cash flows during the period classified by operating, investing and financing activities.**
- .12 A department presents its cash flows from operating, investing and financing activities in a manner which is most appropriate to its activities. Classification by activity provides information that allows users to assess the impact of those activities on the financial position of the department and the amount of its cash and cash equivalents. This information may also be used to evaluate the relationships among

those activities.

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

Operating activities

- .14 The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the department are funded:

- (a) by way of appropriations; or
- (b) from the recipients of goods and services provided by the department (departmental revenue).

The amount of the net cash flows also assists in showing the ability of the department to maintain its operating capability and satisfy its service delivery requirements. Information about the specific components of historical operating cash flows is useful, in conjunction with other information, in forecasting future operating cash flows.

- .15 Cash flows from operating activities are primarily derived from the appropriations received. Other examples of cash flows from operating activities include:

- (a) cash receipts from taxes, levies and fines;
- (b) cash receipts from charges for goods and services provided by the department;
- (c) cash receipts from local and foreign donors;
- (d) cash receipts from royalties, fees, commissions and other revenue;
- (e) cash transfers to other entities to finance their operations (not including loans);
- (f) cash payments to suppliers for goods and services;
- (g) cash payments to and on behalf of employees;
- (h) cash payments of rates and taxes; and
- (i) cash receipts or payments in relation to litigation settlements.

Some transactions, such as the sale of a capital asset, may give rise to revenue that is included in surplus or deficit. The cash flows relating to such transactions are cash flows from investing activities. However, cash payments to manufacture or acquire assets for rental to others and subsequently sold are cash flows from operating activities. The cash received from rents and subsequent sales of such assets are also cash flows from operating activities.

- .16 The Revenue Fund may hold securities and loans for dealing or trading purposes, in which case they are similar to inventory acquired specifically for resale. Therefore, cash flows arising from the purchase and sale of dealing or trading securities are classified as operating activities. Similarly, cash advances and loans made through the Revenue Fund are usually classified as operating activities since they relate to the main cash-generating activity of that department.

Investing activities

- .17 The separate disclosure of cash flows arising from investing activities is important because the cash flows represent the extent to which cash outflows have been made for resources which are intended to contribute to the department's future service delivery. Only payments made, or proceeds received in respect of capital assets or investments are eligible for classification as investing activities. Examples

of cash flows arising from investing activities are:

- (a) cash payments to acquire tangible and / or intangible assets. This includes payments made to acquire assets by way of a finance lease and those relating to capitalised development costs and self-constructed tangible and / or intangible assets;
- (b) cash receipts from sales of tangible and / or intangible assets;
- (c) cash payments to acquire equity or debt instruments of other entities;
- (d) cash receipts from sales of equity of other entities;
- (e) cash advances and loans made to other parties;
- (f) cash receipts from the repayment of advances and loans made to other parties;
- (g) cash payments for futures contracts, forward contracts, option contracts and swap contracts, except when the contracts are held for dealing or trading purposes, or the payments are classified as financing activities; and
- (h) cash receipts from futures contracts, forward contracts, option contracts and swap contracts, except when the contracts are held for dealing or trading purposes, or the receipts are classified as financing activities.

Financing activities

- .18 The separate disclosure of cash flows arising from financing activities is important because it is useful in predicting claims on future cash flows by providers of capital to the department. Examples of cash flows arising from financing activities are:
 - (a) cash proceeds from issuing debentures, loans, notes, bonds, mortgages and other short- or long-term borrowings; and
 - (b) cash repayments of amounts borrowed.

Reporting cash flows from operating activities

- .19 **A department shall report cash flows from operating activities using the direct method, whereby major classes of gross cash receipts and gross cash payments are disclosed.**
- .20 The direct method provides information which may be useful in estimating future cash flows. Under the direct method, information about major classes of gross cash receipts and gross cash payments may be obtained either:
 - (a) from the accounting records of the department; or
 - (b) by adjusting operating revenues, operating expenses and other items in the statement of financial performance for:
 - (i) changes during the period in operating receivables and payables;
 - (ii) other non-cash items; and
 - (iii) other items for which the cash effects are investing or financing cash flows.
- .21 **Departments should provide a reconciliation of the surplus/deficit with the net cash flow from operating activities. This reconciliation should be provided in the notes to the financial statements.**

Reporting cash flows from investing and financing activities

- .22 A department shall report separately major classes of gross cash receipts and gross cash payments arising from investing and financing activities, except to the extent that cash flows described in paragraphs .23 and .26 are reported on a net basis.

Reporting cash flows on a net basis

- .23 **Cash flows arising from the following operating, investing or financing activities may be reported on a net basis:**
- (a) **cash receipts collected and payments made on behalf of customers, taxpayers or beneficiaries when the cash flows reflect the activities of the other party rather than those of the department; and**
 - (b) **cash receipts and payments for items in which the turnover is quick, the amounts are large, and the maturities are short.**
- .24 Paragraph .23(a) refers only to transactions where the resulting cash balances are controlled by the department. Examples of such cash receipts and payments include:
- (a) the collection of taxes by one level of government for another level of government;
 - (b) funds held for individuals; and
 - (c) rents collected on behalf of, and paid over to, the owners of properties.
- .25 Examples of cash receipts and payments referred to in paragraph .23(b) are advances made for, and the repayment of:
- (a) the purchase and sale of investments; and
 - (b) other short-term borrowings, for example, those which have a maturity period of three months or less.
- .26 **Cash flows arising from each of the following activities of a department may be reported on a net basis:**
- (a) **cash receipts and payments for the acceptance and repayment of deposits with a fixed maturity date;**
 - (b) **the placement of deposits with and withdrawal of deposits from other financial institutions; and**
 - (c) **cash advances and loans made to customers and the repayment of those advances and loans.**

Foreign currency cash flows

- .27 **Cash flows arising from transactions in a foreign currency shall be recorded in a department's functional currency by applying to the foreign currency amount at the spot exchange rate between the functional currency and the foreign currency at the date of the cash flow.**
- .28 Cash flows denominated in a foreign currency are reported in a manner consistent with Chapter 21 on *The Effects Of Changes In Foreign Exchange Rates*. This permits the use of an exchange rate that approximates the actual rate. For example, a weighted average exchange rate for a period may be used for recording foreign currency transactions or the translation of the cash flows of a foreign

controlled entity. Chapter 21 does not permit the use of the exchange rate at reporting date when translating the cash flows of a foreign controlled entity.

- .29 Unrealised gains and losses arising from changes in foreign currency exchange rates are not cash flows. However, the effect of exchange rate changes at spot rate on cash and cash equivalents held or due in a foreign currency is reported in the cash flow statement in order to reconcile cash and cash equivalents at the beginning and the end of the period. This amount is presented separately from cash flows from operating, investing and financing activities and includes the differences, if any, had those cash flows been reported at end of period exchange rates.

Interest and dividends or similar distributions

- .30 **Cash flows from interest and dividends or similar distributions received and paid shall each be disclosed separately. Each shall be classified in a consistent manner from period to period as either operating, investing or financing activities.**
- .31 The total amount of interest paid during a period is disclosed in the cash flow statement.
- .32 Interest paid and interest and dividends or similar distributions received may be classified as operating cash flows because they enter into the determination of surplus or deficit. Alternatively, interest paid and interest and dividends or similar distributions received may be classified as financing cash flows and investing cash flows respectively, because they are costs of obtaining financial resources or returns on investments.
- .33 Dividends or similar distributions paid may be classified as a financing cash flow because they are a cost of obtaining financial resources. Alternatively, dividends or similar distributions paid may be classified as a component of cash flows from operating activities in order to assist users to determine the ability of a department to make these payments out of operating cash flows.

Investments in controlled entities, associates and joint ventures

- .34 When accounting for an investment in a controlled entity, associate or joint venture at cost, an investor restricts its reporting in the cash flow statement to the cash flows between itself and the investee, for example, to dividends or similar distributions and advances.

Non-cash transactions

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

Components of cash and cash equivalents

- .37 **Departments shall disclose the components of cash and cash equivalents and shall present a reconciliation of the amounts in its cash flow statement with the equivalent items reported in the statement of financial position.**
- .38 The effect of any change in the policy for determining components of cash and cash equivalents, for example, a change in the classification of financial instruments previously considered to be part of a department's investment portfolio, is reported in accordance with Chapter 4 on *Accounting Policies, Estimates and Errors*.

Other disclosures

- .39 **A department shall disclose, together with a commentary by management, the amount of significant cash and cash equivalent balances held by the department that are not available for use.**
- .40 There are various circumstances in which cash and cash equivalent balances held by a department are not available for use by the department. Examples include cash and cash equivalent balances held by a department on behalf of an individual.
- .41 Additional information may be relevant to users in understanding the cash position of a department. Disclosure of this information, together with a commentary by management, is encouraged and may include:
- (a) the amount of undrawn borrowing facilities that may be available for future operating activities and to settle capital commitments, indicating any restrictions on the use of these facilities; and
 - (b) the amount and nature of restricted cash balances.

Comparison with GRAP 2 on Cash Flow Statements

The main differences between this Chapter and GRAP 2 are as follows:

- The Chapter does not include any guidance or requirements for entities that are public financial institutions as it is unlikely that departments will operate as such.
- Examples of cash flows from operating, financing, and investing activities have been amended to be relevant to the activities of a department.
- The Chapter does not include guidance on cash flows arising from taxes as it is not relevant to departments.
- The Chapter does not include guidance on the reporting of cash flows of a controlled entity, associate, or joint venture when the investment therein is accounted for using the equity method or proportionate consolidation as departments are presently required by law and the MCS to only prepare separate financial statements.
- The Chapter does not contain guidance on acquisitions and disposals of controlled entities and other operating units as these transactions are unlikely to occur.
- The Chapter uses different terminology, in certain instances, from GRAP 2. The most significant examples include the use of 'department', 'chapter', and 'capital assets'. The equivalent terms in GRAP 2 are 'entity', 'standard', and 'property plant and equipment' respectively

Chapter 7: Revenue

Chapter content

Objective	64
Scope	64
Definitions.....	64
Revenue	64
Recognition and measurement of revenue	65
Disclosures	65
Comparison with GRAP 9 on Revenue From Exchange Transactions and GRAP 23 on Revenue From Non-exchange Transactions	67

This Chapter formed part of the original Standard published in 2013 and has since then been considered for improvement as part of the amendments process conducted by the National Treasury's Office of the Accountant-General, more specifically:

- Consequential amendments following the issue of Chapter 16 on *Accounting by Principals and Agents* (Reissued in 2015);
- Amendments to the Modified Cash Standard (Issued 31 March 2022);
- Amendments to the Modified Cash Standard (Issued 31 March 2025); and
- Consequential amendments following the issue of Chapter 21 on *The Effects Of Changes In Foreign Exchange Rates* (Issued 31 March 2025).

Objective

- .01 The objective of this Chapter is to prescribe the accounting treatment for revenue received by a department and its agent as defined in the Chapter 16 on *Accounting by Principals and Agents*.

Scope

- .02 **A department that prepares and presents financial statements under the modified cash basis of accounting shall apply this Chapter in accounting for revenue for the purposes of primary financial information.**
- .03 Chapter 9 on *General Departmental Assets and Liabilities* prescribes the accounting for any receivable and / payable in respect of departmental revenue.

Definitions

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

Aid assistance comprise of amounts received from local and/or international donors in terms of a technical assistance agreement as well as amounts appropriated from the Criminal Asset Recovery Account (CARA Funds).

Appropriated funds (for the purpose of this Chapter) comprise of departmental allocations as well as direct charges against the revenue fund (i.e. statutory appropriations).

Departmental revenue (for the purpose of this Chapter) is the inflow of cash arising in the course of the ordinary activities of the department, normally from the sale of goods and/or assets, the rendering of services, and the earning of interest, taxes and dividends. It includes transactions in financial assets and liabilities and also transfers received. Departmental revenue is collected by national/provincial departments, and is subsequently paid over to the National/Provincial Revenue Fund. Departmental revenue excludes aid assistance and appropriated funds.

Terms defined in other chapters are used in this Chapter with the same meaning as in those other chapters.

Revenue

- .05 Chapter 2 on *Concepts and Principles* defines revenue as “the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners”. Thus, revenue comprises only of amounts received or receivable by the department on its own account. Amounts collected by a department as an agent of another government entity or other third parties will not give rise to an increase in net assets or revenue of the agent. This is because the agent cannot control the use of, or otherwise benefit from, the collected assets in the pursuit of its objectives. Further guidance on principal / agent relationships is included in Chapter 16.

Recognition and measurement of revenue

- .06 **Revenue (other than appropriated funds and CARA Funds) is recognised in the statement of financial performance on the date that the cash is received.**
- .07 When a department incurs some cost in relation to revenue arising from a transaction, the revenue is the gross inflow of future economic benefits or service potential, and any outflow of resources is recognised separately as a cost of the transaction. Revenue is not recognised net of any commission paid unless the amount actually received is the net amount.
- .08 A department generates revenue through taxes, the sale of goods, the rendering of services or the earning of interest and dividends. The recognition of the revenue coincides with the receipt of the funds from the recipient of the good and or services.
- .09 **Appropriated funds and CARA Funds are recognised in the statement of financial performance on the date the appropriation becomes effective. Adjustments made in terms of the adjustments budget process are recognised in the financial statements on the date the adjustments become effective.**
- .10 Aid assistance received can be in the form of donations from local or international donors and are received under terms and conditions as agreed between the department and the donor in the technical assistance agreement. All other transfers received, including donations (other than those relating to aid assistance), are treated as departmental revenue.
- .11 **Revenue is measured at the cash amount received and in the case of appropriated funds and CARA Funds at the amount receivable.**

Disclosures

- .12 **The department shall disclose the accounting policies adopted for the recognition, measurement, presentation and disclosure of revenue.**
- .13 **A department shall disclose in its notes:**
 - (a) **its appropriation to the extent that the amount was budgeted as a separate line item in the published budget;**
 - (b) **the amount of the actual appropriation received (showing separately the actual amount of statutory appropriation received);**
 - (c) **the amount of appropriation not requested/not received along with an explanation thereon;**
 - (d) **a breakdown of the total departmental revenue into the different categories of departmental revenue. This breakdown should also reflect the amount by which departmental revenue is reduced in light of the amount of own revenue included in the appropriation;**
 - (e) **for each of the categories of departmental revenue, the department shall also disclose a separate breakdown of the revenue included in each of these categories. This breakdown should reflect the sources / nature of the revenue that make up the category of departmental revenue;**
 - (f) **for aid assistance received a department shall present a reconciliation of the aid assistance in total;**
 - (g) **cash received for another entity then surrendered to the revenue fund as part of secondary financial information of the departmental revenue note. This amount does not roll-up to the**

main departmental revenue note.

Comparison with GRAP 9 on Revenue From Exchange Transactions and GRAP 23 on Revenue From Non-exchange Transactions

While certain concepts, definitions, and disclosures in this Chapter are drawn from GRAP 9 and GRAP 23, significant differences exist primarily due to the modified cash basis of accounting and established departmental reporting practices. These differences render a comparison impractical.

Chapter 8: Expenditure

Chapter content

Objective	70
Scope	70
Definitions.....	70
Recognition and measurement of expenditure	71
Disclosures	71
Comparison with the Standards of GRAP.....	73

This Chapter formed part of the original Standard published in 2013 and has since then been considered for improvement as part of the amendments process conducted by the National Treasury's Office of the Accountant-General, more specifically:

- Consequential amendments following the issue of Chapter 16 on *Accounting by Principals and Agents* (Reissued for application in 2015);
- Amendments to the Modified Cash Standard (Issued 31 March 2022);
- Amendments to the Modified Cash Standard (Issued 31 March 2025); and
- Consequential amendments following the issue of Chapter 21 on *The Effects Of Changes In Foreign Exchange Rates* (Issued 31 March 2025).

Objective

- .01 The objective of this Chapter prescribes the accounting treatment for expenditure paid by a department and its agent as defined in the Chapter 16 on *Accounting by Principals and Agents*.

Scope

- .02 **A department that prepares and presents financial statements under the modified cash basis of accounting shall apply this Chapter in accounting for expenditure, including expenditure for capital assets, inventory and leases, for the purposes of primary financial information in the statement of financial performance.**
- .03 This chapter excludes estimated or anticipated expenditure (i.e. liabilities) recorded in the notes to the financial statements as secondary financial information. Chapter 14 on *Provisions and Contingents* prescribes the recording and measurement of such amounts. The impact these amounts have on the actual expenditure levels of a department are not directly presented or disclosed in the financial statements.
- .04 Chapter 9 on *General Departmental Assets and Liabilities* prescribes the accounting for any payables recognised, derecognised and / or disclosed for the purposes of the primary financial information.
- .05 **A department shall apply the principles in Chapters 11 to 13 on *Capital Assets, Inventories and Leases* before applying the recognition and measurement principles in this Chapter.**
- .06 This Chapter does not apply to the disclosure of information on capital assets, leased assets and inventories for the purposes of secondary financial information. A department applies the relevant chapter for guidance on the recording and disclosure of such information in the notes to the financial statements.

Definitions

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

Date of payment is the date on which the expenditure is authorised for payment (but no later than the last day of the reporting period).

Terms defined in other chapters are used in this Chapter with the same meaning as in those other chapters.

Expenditure

- .08 Departments are responsible for a wide variety of services such as providing health, safety, education, social and other services to the public. In rendering these services, departments incur a range of different expenses. Expenditure classification categories are derived from the Economic Reporting Format (ERF). The type of expenses incurred by a particular department will depend on the type of activities mainly conducted by that department. Departments providing mainly policy advice will spend a high portion of its budget on compensation of employees, whereas departments providing operational services will incur a wider range of expenses both of a current and a capital nature.

Recognition and measurement of expenditure

- .09 **Expenditure is recognised in the statement of financial performance on the date of payment.**
- .10 As a practical expedient, there is a rebuttable presumption that when a department authorises a payment on its system, the likelihood of this payment not occurring is remote and the department can recognise the expense. However, where there is evidence to the contrary, the department shall make appropriate adjustments to ensure that expenses are recognised on the actual date that the cash outflow occurred.
- .11 **Expenditure is measured at the cash amount paid to settle the expenditure incurred.**

Disclosures

- .12 **The department shall disclose the accounting policies adopted for the recognition, measurement, presentation and disclosure of expenditure.**
- .13 **A department shall disclose the following with regards to compensation of employees:**
 - (a) a breakdown of the salaries and wages paid;
 - (b) a breakdown of the social contributions paid in relation to its employees, for example distinguishing between pension payments and medical payments;
 - (c) the total compensation of employees paid during the year; and
 - (d) the average number of employees of the department for the year.
- .14 **A department shall disclose the following with regards to payments for goods and services:**
 - (a) the amount paid for goods and services, reflecting separately the significant categories of goods and services;
 - (b) payments for assets that cost less than the threshold value prescribed by the OAG, showing significant classes separately and distinguishing between tangible and intangible assets;
 - (c) payments made in relation to computer services, differentiating between computer services from SITA and other external computer service providers;
 - (d) for each significant class of service, the payments made in relation to consultants, contractors and agency/outsourced services;
 - (e) the payment for and nature of each external audit conducted during the period;
 - (f) for each significant class of inventory / consumables, the payments made in relation to the acquisition of inventory / consumables;
 - (g) a high-level analysis of all property payments made during the year;
 - (h) travel and subsistence paid, differentiating between local and foreign costs; and
 - (i) an analysis, per significant category, of other operating expenditure.
- .15 **A department shall disclose the amount of payments for interest and rent on land.**
- .16 **A department shall disclose breakdown of each significant class of payments for financial assets including a description of the nature of the losses that form part of the payments for financial assets.**

- .17 **A department shall disclose separately, per major category, the transfers and subsidies to various entities.**
- .18 **A department shall disclose donations made in kind, in the transfers and subsidies note, at its cost or fair value. Where the cost or fair value cannot be reliably determined, the fact should be disclosed along with the nature of the donations made in kind.**
- .19 **A department shall disclose the following with regards to expenditure for capital assets:**
 - (a) total expenditure for each type/class of assets;**
 - (b) an analysis of voted funds and aid assistance funds utilised to acquire the capital assets;
and**
 - (c) an analysis of finance lease expenditure included in expenditure for capital assets.**

Comparison with the Standards of GRAP

While certain concepts, definitions, and disclosures in this Chapter may be drawn from the Standards of GRAP, significant differences exist primarily due to the modified cash basis of accounting and established departmental reporting practices. These differences render a comparison impractical.

Chapter 9: General Departmental Assets And Liabilities

Chapter content

Objective	76
Scope	76
Definitions.....	76
Accounting for financial assets / liabilities and prepayments / advances	77
Recognition and measurement of financial assets / liabilities and prepayments / advances for the purpose primary financial information	77
Recording and measurement of financial assets / liabilities for the purpose secondary financial information	78
Impairment	80
Derecognition and removal	80
Offsetting financial assets and liabilities	80
Disclosures.....	81
Primary financial information.....	81
Secondary financial information.....	83
Comparison with GRAP 9 on Revenue From Exchange Transactions and GRAP 23 on Revenue From Non-exchange Transactions	85

This Chapter formed part of the original Standard published in 2013 and has since then been considered for improvement as part of the amendments process conducted by the National Treasury's Office of the Accountant-General, more specifically:

- Amendments to the Modified Cash Standard (Issued 31 March 2022); and
- Amendments to the Modified Cash Standard (Issued 31 March 2025).

Objective

- .01 The objective of this Chapter is to prescribe the recognition and measurement practices to be applied to the general departmental assets and liabilities in the financial statements of departments.

Scope

- .02 A department that prepares and presents financial statements under the modified cash basis of accounting shall apply this Chapter for the recognition / recording and measurement of its general departmental assets and liabilities for the purposes of primary and secondary information.
- .03 The following assets and liabilities are explicitly included in the scope of this chapter:
- (a) bank overdraft, cash and cash equivalents, investments, loans, other financial assets, payables and receivables;
 - (b) voted funds and departmental revenue to be surrendered to the revenue fund;
 - (c) prepayments and advances.

Definitions

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

Accruals are liabilities to pay for goods, services or capital assets that have been received or supplied but have not been paid and have not been invoiced or formally agreed with the supplier or recipient, including amounts due to employees (for example, amounts relating to leave entitlements). Although it is sometimes necessary to estimate the amount or timing of accruals, the uncertainty is generally much less than for provisions.

An **advance received** comprises of funds received in advance of goods, services or capital assets that are yet to be delivered by the department in accordance with the agreement under which the advance is received. An allocation to advances received is only made when the agreement involves one or more government entities.

An **advance paid** comprises of funds paid in advance of goods, services or capital assets that are yet to be delivered to the department, and in the case of transfers and subsidies, cash is yet to be earned by the recipient, in accordance with the agreement under which the advance is paid. An allocation to advances paid is only made when the agreement involves one or more government entities and/or when advances are paid to staff.

Cost (for purposes of this Chapter) is the transaction amount, less any amounts derecognised (where applicable).

A **financial asset** is:

- (a) cash;
- (b) a residual interest of another entity; or
- (c) a contractual right to:
 - (i) receive cash or another financial asset from another entity; or
 - (ii) exchange financial assets or financial liabilities with another entity under conditions that

are favourable to the department.

A **financial instrument** is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

A **financial liability** is any liability that is a contractual obligation to:

- (a) deliver cash or another financial asset to another party; or
- (b) exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the department.

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

Payables not recognised are liabilities to pay for goods or services that have been received or supplied and have been invoiced or formally agreed with the supplier or recipient (and include payments in respect of social benefits where formal agreements for specified amounts exist).

A **prepayment** is a payment made in advance of the goods, services or capital assets that are yet to be received and in the case of transfers and subsidies cash is yet to be earned by the recipient, in accordance with the agreement under which the payment is made. An allocation to prepayments is made when the agreement involves the department with non-governmental entity.

A **residual interest** is any contract that manifests an interest in the assets of an entity after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:

- (a) equity instruments or similar forms of unitised capital;
- (b) a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an entity's net assets, either before the contribution occurs or at the time of the contribution; or
- (c) a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an entity.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Terms defined in other chapters are used in this Chapter with the same meaning as in those other chapters.

Accounting for financial assets / liabilities and prepayments / advances

Recognition and measurement of financial assets / liabilities and prepayments / advances for the purpose of primary financial information

- .05 A department shall recognise a financial asset or a financial liability, a prepayment or an advance in its statement of financial position when, and only when, the department becomes a party to the provisions of the arrangement, and one of the following additional recognition

criteria are met:

- (i) the instrument is cash, or a cash equivalent under the control of the department;
- (ii) the financial asset or liability, prepayment or advance initially arose from a cash transaction (for example loans to employees or other parties, that will be settled in cash); or
- (iii) the financial asset is a capital investment.

- .06 A department may recognise a prepayment or an advance, made before 1 April 2024, in the statement of financial performance in accordance with Chapter 8 on *Expenditure* if the prepayment or the advance paid is material and was budgeted for as an expense in the year in which the actual prepayment or advance was made.
- .07 An arrangement for the purposes of this Chapter encompasses both contractual and non-contractual arrangements. A contractual arrangement refers to an agreement between two or more parties that has clear economic consequences that the parties have little, if any, discretion to avoid, usually because the agreement is enforceable by law. Non-contractual arrangements arise out of legislation, supporting regulations or similar means (i.e. documents issued in terms of legislation such as ministerial orders and cabinet decisions).
- .08 A financial liability may arise out of legislation for example the requirement for departments to surrender all unspent appropriations and collected departmental revenue to the relevant revenue fund. Financial receivables recognised in the statement of financial position usually arise when employees owe money to the department or where an overpayment has been made to a supplier or any other entity.
- .09 **When a financial asset or financial liability is recognised initially, a department shall measure it at its cost plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.**
- .10 **At the reporting date, a department shall measure its financial assets and financial liabilities at cost, less amounts already settled or written-off, except for recognised loans and receivables, which are measured at cost plus accrued interest, where interest is charged, less amounts already settled or written-off.**
- .11 **A prepayment or advance is initially and subsequently measured at cost.**
- .12 The impact of the time value of money on the value of a financial liability (and financial asset) is ignored, where for practical reasons, the actual flow of funds occurs soon after the reporting date, for example during the finalisation of the audit.

Recording and measurement of financial assets / liabilities for the purpose of secondary financial information

- .13 **A financial asset or financial liability not recognised in accordance with paragraph .05 shall be recorded as a financial asset or financial liability for disclosure purposes when, and only when, the department becomes a party to the contractual provisions of the arrangement and when the criteria in paragraphs .14 and .20 are met.**

Accrued revenue receivable

- .14 **A department records and discloses accruals in respect of departmental revenue (excluding tax revenue), when:**

- (a) it is probable that the economic benefits or service potential associated with the transaction will flow to the department; and**
- (b) the amount of revenue can be measured reliably.**

Furthermore, to the extent that revenue is related to the sale of goods and/or assets or the rendering of services the following additional criteria must be satisfied:

Sale of goods

- (a) the department has transferred to the purchaser the significant risks and rewards of ownership of the goods;**
- (b) the department retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold; and**
- (c) the costs incurred or to be incurred in respect of the transaction can be measured reliably.**

Rendering of services

- (a) the stage of completion of the transaction at the reporting date can be measured reliably; and**
- (b) the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.**

- .15 A department needs to assess the degree of certainty attached to the flow of future economic benefits or service potential on the basis of the available evidence. Revenue should only be recorded once evidence of the probability of the flow becomes available, for example the signing of an agreement.

Taxation revenue

- .16 **A department is exempt from the recording of an accrual for taxation revenue. By implication, a department need not accrue for any receivables or payables such as interest or other charges that are directly related to the levying and or collection of the tax receipt.**
- .17 **Notwithstanding the exemption in paragraph .16, a department shall record an accrual for any amounts collected by third parties and which are due to the department at the reporting date.**
- .18 **Accrued revenue shall be measured at the fair value of the consideration receivable.**
- .19 The fair value of the accrual is the transaction price, which is the value agreed in the contract between the two parties.

Accruals and payables not recognised

- .20 **Accruals and payables not recognised are recorded when goods are received or, in the case of services, when they are delivered to the department or, in the case of transfers and subsidies, when they are due and payable. For accruals, an invoice has not been received whereas for payables not recognised, the invoice has been received.**
- .21 **A department shall record its accruals and payables not recognised, at cost, as at the reporting date. Where the cost cannot be determined, the amounts are recorded at the best estimate of funds required to settle the accruals and payables at the reporting date (applying the principles in Chapter 14 on *Provisions and Contingents*).**

Impairment

- .22 **For all financial assets (primary and secondary information), where there is an indication of impairment, appropriate disclosures should be included in the notes to the financial statements to show the estimated reduction in the recorded carrying value.**
- .23 Impairment estimates could be determined by estimating the present value of the expected future inflow of cash that is expected in settlement of the recorded financial asset. The present value is determined by using an appropriate interest rate to discount the future expected cash flow. As a practical expedient, departments are encouraged to consider the prevailing prime rate of interest. Further adjustments to the rate that may better reflect the credit risk associated with the instrument may be made.

Derecognition and removal

- .24 **A department shall derecognise and / or remove a financial asset only when:**
- (a) **the contractual rights to the cash flows from the financial asset expire, are settled, or waived (written-off); or**
 - (b) **the department transfers to another party substantially all of the risks and rewards of ownership of the financial asset.**
- .25 **A department shall derecognise and / or remove a financial liability (or a part of a financial liability) when, and only when, it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or is waived.**
- .26 **Prepayments and advances recognised in the statement of financial position are derecognised when the related goods, services or capital assets are received/delivered or the funds are utilised in accordance with the contractual arrangement.**
- .27 Derecognition of advances received occurs when a department completes the terms under which the funds were initially received. This happens when the related goods, services or capital assets are delivered by the department.
- .28 Where a department has made prepayments and advances, derecognition is contingent on fulfilling the obligations of that contractual arrangement, such as the receipt of goods, services or capital assets by the department.
- .29 When a department prepays transfers and subsidies, derecognition of the prepaid amount occurs once the recipient(s) becomes entitled to the funds. Entitlement is established when the recipient has met the conditions specified in the funding agreement, such as fulfilling performance criteria, incurring eligible expenditures, or achieving specific project milestones. This ensures that prepayments for transfers and subsidies are derecognised only when the recipient(s) has “earned” the funds in alignment with the purpose and conditions set by the department or legislation.
- .30 As a practical expedient, the date of derecognition is when it is authorised for derecognition on the department’s financial system.

Offsetting financial assets and liabilities

- .31 **A financial asset and a financial liability shall be offset and the net amount presented in the statement of financial position when, and only when, the department:**
- (a) **currently has a legally enforceable right to set off the recognised amounts; and**

(b) intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

- .32 This Chapter requires the presentation of financial assets and financial liabilities on a net basis when doing so reflects a department's expected future cash flows from settling two or more separate financial instruments. When a department has the right to receive or pay a single net amount and intends to do so, it has, in effect, only a single financial asset or financial liability. In other circumstances, financial assets and financial liabilities are presented separately from each other consistently with their characteristics as resources or obligations of the department.
- .33 Offsetting a recognised financial asset and a recognised financial liability and presenting the net amount differs from the derecognition of a financial asset or a financial liability. Although offsetting does not give rise to recognition of a gain or loss, the derecognition of a financial instrument not only results in the removal of the previously recognised item from the statement of financial position but also may result in recognition of a gain or loss.
- .34 A right of set-off is a debtor's legal right, by contract or otherwise, to settle or otherwise eliminate all or a portion of an amount due to a creditor by applying against that amount an amount due from the creditor. In unusual circumstances, a debtor may have a legal right to apply an amount due from a third party against the amount due to a creditor provided that there is an agreement between the three parties that clearly establishes the debtor's right of set-off. Because the right of set-off is a legal right the laws applicable to the relationships between the parties need to be considered.
- .35 A department's intentions with respect to settlement of particular assets and liabilities may be influenced by its normal operating practices, the requirements of the financial markets and other circumstances that may limit the ability to settle net or to settle simultaneously. When a department has a right of set-off, but does not intend to settle net or to realise the asset and settle the liability simultaneously, the department should not offset the financial asset and financial liability.

Disclosures

Primary financial information

- .36 **A department shall disclose the following in its notes with regard to cash and cash equivalents:**
- (a) the balance of significant classes of cash and cash equivalents separately at the end of the reporting period.**
- .37 **A department shall disclose the following in its notes with regard to other financial assets:**
- (a) the major categories of current and non-current financial assets.**
 - (b) individually material financial assets shall be disclosed separately.**
 - (c) in disclosing the major categories of other financial assets, the department shall differentiate between local and foreign financial assets.**
- .38 **A department shall disclose the following in its notes with regard to prepayments and advances:**
- (a) per significant category of the prepayments and advances, a reconciliation of the opening balance and the closing balance at the end of the reporting period;**
 - (b) an analysis of the prepayments and advances; and**
 - (c) an explanation on the nature and extent of the goods, services or capital assets not yet received/delivered at the reporting date.**

- .39 A department shall disclose the following in its notes with regard to receivables:
- (a) an analysis for receivables per category of receivable. The analysis presented should reflect a split between current and non-current receivables; and
 - (b) for each category of receivables, a department shall also disclose separately the classes of receivables per category, with a description of the class and value thereof.
- .40 A department shall disclose the following in its notes with regard to investments:
- (a) its non-current investment in:
 - (i) shares and other equity; and
 - (ii) securities other than shares.
 - (b) a reconciliation of the opening balance and the balance at the reporting date of the non-current investments reflecting the following:
 - (i) additions in cash;
 - (ii) disposals in cash; and
 - (iii) non-cash movements.
- .41 A department shall disclose the following in its notes with regard to loans:
- (a) the value of each class of loans; and
 - (b) an analysis of the total balance of loans reflecting the following:
 - (i) New loans issued;
 - (ii) Repayments of loans; and
 - (iii) Loans written off.
- .42 A department shall disclose the following in its notes with regard to bank overdrafts:
- (a) details of the bank overdraft balance at year end as part of current liabilities.
- .43 A department shall disclose the following, in its notes, with regard to current payables:
- (a) the total of each separate significant category of current payables.
 - (b) for each category disclosed, the department shall disclose a description of the payable and value thereof.
- .44 A department shall disclose the following in its notes with regard to non-current payables:
- (a) A department shall disclose, in the notes, an age-analysis for non-current payables per category. The age analysis presented should reflect the following classifications:
 - (i) One to two year;
 - (ii) Two to three years; and
 - (iii) Older than three years.
 - (b) For each category of non-current payables, a department shall disclose separately the significant classes of non-current payables, with a description of the class and value thereof, included in the category.
- .45 A department shall disclose the following in its notes with regard to aid assistance:

(a) an analysis of the total aid assistance balance to indicate the following:

- (i) Aid assistance receivable;**
- (ii) Aid assistance prepayments;**
- (iii) Aid assistance unutilised; and**
- (iv) Aid assistance repayable.**

.46 A department shall disclose the following in its notes with regard to voted funds to be surrendered to the Revenue Fund:

(a) A reconciliation of the opening balance and the closing balance at the end of the reporting period reflecting the following:

- (i) Transfer from statement of financial performance;**
- (ii) Unauthorised expenditure for current year;**
- (iii) Voted funds not requested/not received;**
- (iv) Transferred to retained revenue to defray excess expenditure (but only to the extent that the department is either Parliament or a provincial legislature); and**
- (v) Amounts paid during the year.**

(b) To the extent that the department is either Parliament or a provincial legislature, the department shall also present a breakdown of the amounts transferred to retained revenue to defray excess expenditure.

.47 As part of the primary financial information, a department shall disclose the following in its notes with regards to departmental revenue and NRF receipts to be surrendered to the Revenue Fund:

(a) A reconciliation of the opening balance and the closing balance at the end of the reporting period showing the following:

- (i) Transfer from Statement of Financial Performance;**
- (ii) Own revenue included in appropriation;**
- (iii) Transfer from aid assistance; and**
- (iv) Transferred to retained revenue to defray excess expenditure (but only to the extent that the department is either Parliament or a provincial legislature).**

Secondary financial information

.48 As part of the secondary financial information, a department shall disclose the following in its notes with regard to recorded receivables for departmental revenue:

- (a) The major categories of receivables for departmental revenue (or accrued departmental revenue);**
- (b) An analysis of the opening balance and the closing balance of departmental revenue receivables at the reporting date; and**
- (c) A description of the nature and value of any receivables for departmental revenue written off.**

.49 A department shall also disclose the following in its notes with regard to impairments of

recorded receivables:

- (a) the impairment losses for the period for each class of financial asset;**
- (b) the methodology applied by the department to calculate the impairment loss.**

- .50 A department shall disclose a summary of its accruals and payables not recognised (other than those relating to employee benefits) per economic classification. In presenting this summary the department shall also provide an aging of those accruals and payables not recognised differentiating between 30-day accruals and payables not recognised and those that are more than 30 days old.**
- .51 A department shall disclose the value of each major class of accruals and/or payables not recognised for employees in a note on employee benefits as at the reporting date.**

Comparison with GRAP 9 on Revenue From Exchange Transactions and GRAP 23 on Revenue From Non-exchange Transactions

While certain concepts, definitions, and disclosures in this Chapter are drawn from GRAP 9 and GRAP 23, significant differences exist primarily due to the modified cash basis of accounting and established departmental reporting practices. These differences render a comparison impractical.

Chapter 10: Treasury Financial Instruments

Chapter content

Objective	88
Scope	88
Definitions	88
Distinguishing liabilities and residual interests	91
No contractual obligation to deliver cash or another financial asset	91
Primary financial information	92
Initial recognition	92
Measurement at initial recognition	92
Subsequent measurement	92
Derecognition of financial assets	93
Assessing the transfer of risks and rewards, and control	94
Derecognition of financial liabilities	94
Offsetting financial assets and financial liabilities	95
Disclosures	95
Comparison with GRAP 104 on Financial Instruments	96
Appendix - Measurement of financial assets and liabilities	97

This Chapter formed part of the original Standard published in 2013 and has since then been considered for improvement as part of the amendments process conducted by the National Treasury's Office of the Accountant-General, more specifically:

- Amendments to the Modified Cash Standard (Issued 31 March 2022); and
- Amendments to the Modified Cash Standard (Issued 31 March 2025).

Objective

- .01 The objective of this Chapter is to prescribe the recognition and measurement practices to be applied to treasury financial instruments in the consolidated financial statements of national / provincial government.

Scope

- .02 **A department that prepares and presents financial statements under the modified cash basis of accounting shall apply this chapter for the recognition and measurement of its treasury financial instruments for the purpose of primary financial information.**
- .03 This chapter applies to departments that are involved in investing or issuing certain types of financial instruments for the purposes of making a return or raising finance. Typically, these types of instruments would be limited to the National or a Provincial Treasury.
- .04 **This Chapter does not apply to the following instruments, except where indicated otherwise:**
- (a) **Rights and obligations under leases to which Chapter 13 on *Leases* applies;**
 - (b) **Insurance contracts as defined in the International Financial Reporting Standard on Insurance Contracts;**
 - (c) **Financial guarantee contracts that are issued by a department and recognised, measured and/or disclosed in accordance with Chapter 14 on *Provisions and Contingents*;**
 - (d) **Loan commitments that are issued by a department and recognised, measured and/or disclosed in accordance with Chapter 14;**
 - (e) **Contractual rights and obligations arising from revenue transactions to which Chapter 7 on *Revenue* applies; and**
 - (f) **Financial instruments that are within the scope of Chapter 9 on *General Departmental Assets and Liabilities*.**

Definitions

- .05 ***The following terms are used in this chapter with the meanings specified:***

The **amortised cost** of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the coupon rate.

The **cost method** (for purposes of this Chapter) is the method used to account for financial instruments that requires such instruments to be measured at their transaction amount, plus any accrued interest and other charges (where applicable), less any amounts derecognised.

A **concessionary loan** is a loan granted or received on terms that are not market related.

The **coupon rate** of an instrument is the agreed interest rate quoted in the agreement for the instrument at which interest is levied on the instrument. E.g. the coupon rate of a 5% R100 bond would be 5%.

Derecognition is the removal of a previously recognised financial asset or financial liability from the statement of financial position.

A **derivative** is a financial instrument or other contract within the scope of this Chapter with all three of the following characteristics:

- (a) Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying').
- (b) It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- (c) It is settled at a future date.

The **face value** of an instrument is the coupon price of the instrument, e.g. the face value of a R100 bond, would be R100.

The **transaction amount** for financial instruments means the cash amount received at the date of issue.

The **settlement value** of an instrument is the amount that would be required to extinguish any right to cash or obligation to deliver cash related to the instrument at a specific point in time. E.g. the settlement value of a loan at the reporting date would be the amount required to extinguish the obligation at the reporting date.

Special drawing rights (SDRs) are supplementary foreign exchange reserve assets defined and maintained by the IMF.

- .06 *The following types (classes) of financial assets typically exist in the South African public sector and are defined as follows:*

Capital subscriptions represent South Africa's membership / shareholding in international financial institutions. These institutions have been established by more than one country and are subject to international law. Their owners or shareholders are generally national governments.

- .07 *The following types (classes) of financial liabilities typically exist in the South African public sector and are defined as follows:*

Callable capital is the portion of subscribed capital stock in international financial institutions that is subject to call only as and when required by the institution to meet its obligations:

- (a) for funds borrowed or loans guaranteed by it; or
- (b) on foreign investment guarantees to investors that are planning investments in developing member countries.

Fixed-rate bonds are debt instruments which carry a fixed interest rate (coupon rate) over the life of the instrument payable on the face value of the security. Interest is payable every 6 months. At issue the debt instrument has an outstanding term-to-maturity in excess of one year. The bonds are repayable on maturity at face value.

Fixed-rate retail savings bonds are debt instruments which carry a fixed interest rate (coupon rate) over the life of the instrument on the face value of the security. The instruments have a term-to-maturity of 2, 3 and 5 years with interest payable monthly, every 6 months or capitalised. Investors have the option to redeem their investment prior to maturity at a penalty.

Foreign concessionary loans are debt instruments issued in a foreign currency on terms substantially more generous than market loans. The concessionality is achieved either through interest rates below those available in the market or by grace periods, or a combination of these. The interest and capital are repayable at maturity in that foreign currency.

Foreign currency bonds / loans are debt instruments issued in a foreign currency with interest payable at a fixed rate (coupon rate) and capital repayable at maturity in that foreign currency.

Inflation-linked bonds are debt instruments where the principal amount is indexed to the headline inflation (consumer price inflation) thus the outstanding value of the bonds vary over time according to the consumer price index. Interest is payable at a fixed rate (coupon rate) on the inflation adjusted outstanding amount. At maturity the adjusted capital value of the bonds are paid.

Inflation-linked retail savings bonds are debt instruments issued at a face value with a term to maturity of 2, 3 and 5 years. The principal value fluctuates according to the consumer price index. Interest is payable at a fixed rate (coupon rate) on the adjusted principal value outstanding.

International Monetary Fund (IMF) securities are securities in the IMF's general recourse account held with the South African Reserve Bank.

Loans are amounts borrowed from the Corporation for Public Deposits for bridging finance purposes.

Perpetual bonds are debt instruments with no predetermined maturity. Interest is payable six monthly at a fixed-rate.

A **repurchase agreement (REPO) / Scrip lending** is a form of short-term borrowing where government sells a security and agrees to repurchase it in the future.

Separately traded interest and principal bonds (STRIPS) are securities that have been transformed from a principle amount with periodic interest coupons into a series of zero-coupon bonds, whose range of maturities matches the coupon payment dates and the redemption date of the principle amount.

Treasury bills are short-term debt instruments issued at a discount to par with a term-to-maturity between 1-day to 364-days.

Variable rate bonds are debt instruments with the interest rate indexed to the 91 day Treasury bill yield. Interest is payable on a quarterly basis and the bonds are repayable at its face value on maturity.

Zero coupon bonds are debt instruments issued at a deep discount and are repayable at its face value on maturity. The discount at issue is amortised six monthly over the life of the bond using the effective interest rate at time of issue.

Distinguishing liabilities and residual interests

- .08 The issuer of a financial instrument shall classify the instrument, or its component parts, on initial recognition as a financial liability, a financial asset or residual interest in accordance with the substance of the contractual arrangement and the definitions of a financial liability, a financial asset and a residual interest.**
- .09** When an issuer applies the definitions in paragraph .05 to determine whether a financial instrument is a residual interest rather than a financial liability, the instrument is a residual interest if, and only if, the instrument includes no contractual obligation to:
- (a) deliver cash or another financial asset to another entity; or
 - (b) exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the issuer.

No contractual obligation to deliver cash or another financial asset

- .10** A critical feature in differentiating a financial liability from a residual interest is the existence of a contractual obligation of one party to the financial instrument (the issuer) either to deliver cash or another financial asset to the other party (the holder), or to exchange financial assets or financial liabilities with the holder under conditions that are potentially unfavourable to the issuer. Although the holder of a residual interest may be entitled to receive a pro rata share of any dividends or similar distributions, the issuer does not have a contractual obligation to make such distributions because it cannot be required to deliver cash or another financial asset to another party.
- .11** The substance of a financial instrument, rather than its legal form, governs its classification on the department's statement of financial position. Substance and legal form are commonly consistent, but not always. Some financial instruments take the legal form of a residual interest but are liabilities in substance. Others may combine features associated with residual interests and features associated with financial liabilities.
- .12** If a department does not have an unconditional right to avoid delivering cash or another financial asset to settle a contractual obligation, the obligation meets the definition of a financial liability. For example:
- (a) a restriction on the ability of a department to satisfy a contractual obligation, such as lack of access to foreign currency or the need to obtain approval for payment from a regulatory authority, does not negate the department's contractual obligation or the holder's contractual right under the instrument; or
 - (b) a contractual obligation that is conditional on a counterparty exercising its right to redeem is a financial liability because the department does not have the unconditional right to avoid delivering cash or another financial asset.
- .13** A financial instrument that does not explicitly establish a contractual obligation to deliver cash or another financial asset may establish an obligation indirectly through its terms and conditions. For example, a financial instrument may contain a nonfinancial obligation that must be settled if, and only if, the department fails to make distributions or to redeem the instrument. If the department can avoid a transfer of cash or another financial asset only by settling the non-financial obligation, the financial instrument is a financial liability.

Primary financial information

Initial recognition

- .14 **A department shall recognise a financial asset or a financial liability in its consolidated statement of financial position when, and only when, the department becomes a party to the contractual provisions of the instrument.**

Measurement at initial recognition

- .15 **When a financial asset or financial liability is recognised initially, a department shall measure it at its face value.**
- .16 **At initial recognition a department may also designate a financial instrument to be measured at its transaction amount at initial recognition. As such, the department may measure the financial instrument, at initial recognition, at the amount that was received in cash on the date of issue.**
- .17 **All transaction costs that are directly attributable to the acquisition or issue of a financial asset or liability are recognised as an expense in accordance with Chapter 8 on *Expenditure*.**
- .18 Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisers, brokers, and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs, or internal administrative or holding costs
- .19 **Costs that are not directly attributable to the acquisition or issue of a financial asset or financial liability are recognised as an expense in accordance with Chapter 8.**
- .20 **Costs that are directly attributable to the acquisition or issue of financial assets or financial liabilities, but which cannot be linked to specific financial assets or financial liabilities are recognised as an expense in accordance with Chapter 8.**
- .21 Credit rating agency fees are incurred in the process of obtaining credit ratings from international credit rating agencies such as Moody's, Standards & Poor, etc. The credit ratings thus obtained provide potential investors (in the government debt instruments issued by National Treasury) with an indication of the risk of payment default associated with the issuer of the instrument. As such, these costs are integral to the issuing of debt instruments. However, taking into consideration that the credit rating is done at an entity level (i.e. the issuer of the instrument is evaluated and not the individual instrument) the credit rating fee cannot be linked to a specific instrument. Therefore, the credit rating agency fees will not be recognised in the cost of an instrument.

Subsequent measurement

Cost method

- .22 **Under the cost method, the transaction amount of the financial asset and or liability is changed subsequent to initial recognition to reflect any:**
- (a) change in the foreign exchange rate (where applicable);**
- (b) interest capitalised (where applicable); or**

(c) amounts derecognised.**Foreign currency gains and losses**

- .23 At reporting date, the foreign currency of amount of a loan or bond is converted to South African Rand using the spot rate with any revaluation gain or loss is recognised in surplus or deficit.
- .24 **All interest paid or received is recognised as revenue or an expense in accordance with Chapter 7 and Chapter 8.**

Alternative measurement models

- .25 **A department may designate the subsequent measurement of a specific class of non-derivative financial instruments with fixed or determinable payments to be at:**
 - (a) amortised cost; or**
 - (b) settlement value.**

Amortised cost

- .26 For financial instruments at amortised cost, the interest expense (for financial liabilities) or revenue (for financial assets) is calculated by using the coupon rate of the instrument.
- .27 The coupon rate is the rate that is quoted and agreed upon within the contract for the instrument. For example, where a department issues a bond with a face value of R 100 and agrees an interest rate of 8% in the bond (which will be stated as such in the bond agreement) the coupon rate will be 8%. Where interest is recognised with reference to the coupon rate it will therefore be determined as the face value multiplied by the coupon rate. For the aforementioned example the interest expense determined with reference to the coupon rate would be $R100 \times 8\% = R8$.
- .28 The coupon rate ignores all premiums and discounts. Furthermore, this rate also excludes any fees related to the issuing of the instrument. This rate is determined with pure reference to the agreement that underpins the financial instrument.
- .29 **For financial assets and financial liabilities measured at amortised cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or through the amortisation process.**

Settlement value

- .30 For financial assets and financial liabilities measured at settlement value the amount determined is the "exit price". For assets this is the amount the department would have received if it had sold the asset and for liabilities the amount reflects the amount the department would have paid if it had been relieved of the liability.
- .31 **For financial assets and financial liabilities measured at settlement value, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or revalued.**

Derecognition of financial assets

- .32 **A department shall derecognise a financial asset only when:**

- (a) the contractual rights to the cash flows from the financial asset expire, are settled or waived; or**
- (b) the department transfers to another party substantially all of the risks and rewards of ownership of the financial asset;**

Assessing the transfer of risks and rewards, and control

- .33 The transfer of risks and rewards is evaluated by comparing the department's exposure, before and after the transfer, with the variability in the amounts and timing of the net cash flows of the transferred asset. A department has retained substantially all the risks and rewards of ownership of a financial asset if its exposure to the variability in the present value of the future net cash flows from the financial asset does not change significantly as a result of the transfer (e.g. because the department has sold a financial asset subject to an agreement to buy it back at a fixed price or the sale price plus a lender's return). A department has transferred substantially all the risks and rewards of ownership of a financial asset if its exposure to such variability is no longer significant in relation to the total variability in the present value of the future net cash flows associated with the financial asset (e.g. because the department has sold a financial asset subject only to an option to buy it back at its fair value at the time of repurchase).
- .34 Often it will be obvious whether the department has transferred or retained substantially all of the risks and rewards of ownership and there will be no need to perform any computations. In other cases, it will be necessary to compute and compare the department's exposure to the variability in the present value of the future net cash flows before and after the transfer. The computation and comparison is made using as the discount rate an appropriate current market interest rate. All reasonably possible variability in net cash flows is considered, with greater weight being given to those outcomes that are more likely to occur.
- .35 Whether the department has transferred control of the asset depends on the transferee's ability to sell the asset. If the transferee has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer, the department has not retained control.
- .36 **On derecognition of a financial asset in its entirety, the difference between:**
 - (a) the carrying amount; and**
 - (b) the sum of the consideration received (including any new asset obtained less any new liability assumed)****shall be recognised in surplus or deficit.**

Derecognition of financial liabilities

- .37 **A department shall remove a recognised financial liability (or a part of a financial liability) from its consolidated statement of financial position when, and only when, it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.**
- .38 **An exchange between an existing borrower and lender of debt instruments with substantially different terms shall be accounted for as having extinguished the original financial liability, and a new financial liability recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it (whether or not attributable to the financial difficulty of the debtor) shall be accounted for as having extinguished the original financial liability and having recognised a new financial liability.**

- .39 The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, shall be recognised in surplus or deficit.

Offsetting financial assets and financial liabilities

- .40 A financial asset and a financial liability shall be offset and the net amount presented in the statement of financial position when, and only when, the department:
- (a) currently has a legally enforceable right to set off the recognised amounts; and
 - (b) intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Disclosures

- .41 The department shall disclose the measurement model applied to its financial instruments in the notes to the financial statements.
- .42 A department shall disclose the following items of revenue, expense, gains or losses either in the statement of financial performance or in the notes:
- (a) total interest revenue and total interest expense for financial instruments; and
 - (b) total foreign exchange gains and or losses on the revaluation of financial instruments;
- .43 For each type of risk arising from financial instruments, a department shall disclose:
- (a) the exposures to risk and how they arise; and
 - (b) its objectives, policies and processes for managing the risk.
- .44 A department shall disclose:
- (a) a maturity analysis or redemption analysis for financial liabilities that shows the remaining contractual maturities; and
 - (b) a description of how it manages the liquidity risk inherent in (a).

Comparison with GRAP 104 on Financial Instruments

While certain concepts, definitions, and disclosures in this Chapter are drawn from GRAP 104, significant differences exist primarily due to the modified cash basis of accounting and established departmental reporting practices. These differences render a comparison impractical.

Appendix - Measurement of financial assets and liabilities

The appendix is an integral part of the Chapter. The purpose of the appendix is to illustrate the application of the Chapter to the classes of financial instruments in South Africa.

Class of financial instrument	Initial measurement	Subsequent measurement
Financial assets		
Capital subscriptions (e.g. in the International Finance Corporation, International Bank for Reconstruction and Development, the Multilateral Investment Guarantee Agency, the IMF and the African Development Bank)	The investment is initially recognised at the issue price	Revalued using the closing exchange (spot) rate at 31 March each year. Forex gain / loss recognised in the consolidated statement of financial performance.
Financial liabilities		
Callable capital (relating to the subscription in the International Bank for Reconstruction and Development, the Multilateral Investment Guarantee Agency, the IMF and the African Development Bank)	The liability is initially recognised at the issue price (of the capital subscription).	Revalued using the closing exchange (spot) rate at 31 March each year. Forex gain / loss recognised in the consolidated statement of financial performance.
Concessionary loans	Initially recognised at the face value of the loan	The cost model is applied. The loan is stated at the face value less subsequent repayments of the capital amount. As such, unpaid interest is not capitalised as part of the bond amount.
Fixed rate bonds These bonds can be issued at par, a discount or premium.	Initially recognised at the face value of the bond	After initial recognition the bond is measured at its face value. As such, unpaid interest is not capitalised as part of the bond amount.
Fixed rate retail savings bonds	Initially recognised at the face value of the bond	After initial recognition the bond is measured at its face value. However, with certain of these bonds the agreement allows for capitalisation of the interest. Where the agreement allows for this capitalisation interest is capitalised to the face value using the coupon rate.
Foreign concessionary loans	Initially recognised at the face value loan. The face value of the loan at initial recognition is determine as the actual Rand amount received for the loan	The cost model is applied. The loan is stated at the face value less subsequent repayments of the capital amount and adjusted for

Class of financial instrument	Initial measurement	Subsequent measurement
	denominated in a foreign currency.	translation of the foreign currency amount to Rand. At reporting date, the foreign currency amount of the bond (loan) is converted to Rand using the spot rate (mid-rate). This results in either a foreign currency revaluation profit or loss. As such, unpaid interest is not capitalised as part of the bond amount.
Foreign currency bonds / loans	Initially recognised at the face value loan / bond. The face value of the loan / bond at initial recognition is determined as the actual Rand amount received for the loan / bond denominated in a foreign currency.	The cost model is applied. The loan is stated at the face value less subsequent repayments of the capital amount and adjusted for translation of the foreign currency amount to Rand. At reporting date, the foreign currency amount of the bond (loan) is converted to Rand using the spot rate (mid-rate). This results in either a foreign currency revaluation profit or loss. As such, unpaid interest is not capitalised as part of the bond amount.
Inflation linked bonds	Initially recognised at the transaction amount of the bond	After initial recognition the bonds are measured at their settlement value. The bond's face value is adjusted for changes in CPI to arrive at the amount that will be required to settle the outstanding obligation.
Inflation linked retail savings bonds	Initially recognised at the face value of the bond	After initial recognition the bonds are measured at their settlement value. The bond's face value is adjusted for changes in CPI to arrive at the amount that will be required to settle the outstanding obligation.
Loans (CPD borrowings)	Initially recognised at the face value of the loans.	The cost model is applied. The loan is stated at the face value less subsequent repayments of the capital amount. As such, unpaid interest is not capitalised as part of the bond amount.

Class of financial instrument	Initial measurement	Subsequent measurement
Perpetual bonds	Initially recognised at the face value of the bond	After initial recognition the bond is measured at its face value. As such, unpaid interest is not capitalised as part of the bond amount.
Repos / Scrip lending	Initially recognised at face value	After initial recognition the repos are measured at their settlement value.
STRIPS	At initial recognition the STRIPS are measured at their face value. Currently, the principal STRIPS are included as part of debt with the coupon STRIPS as part of debt-service cost	After initial recognition the STRIPS are measured at their face value.
Treasury bills	Initially recognised at the face value of the bills	After initial recognition the bill is measured at its face value.
Variable rate bonds	Initially recognised at the face value of the bond	After initial recognition the bond is measured at its face value. As such, unpaid interest is not capitalised as part of the bond amount.
Zero coupon bonds	Initially recognised at the transaction amount of the bond. As such, the bond is initially recognised at the cash amount received.	After initial recognition the bonds are measured at their settlement value. The bonds are issued initially at a discount with no coupon rate. The difference between the face value of the bond and the transaction amount is unwound over the term of the bond. As such, at the reporting date the bond is measured at the face value increased with a portion of the discount that was unwound to date to arrive at the settlement value of the bond at the reporting date.

Chapter 11: Capital Assets

Chapter content

Objective	102
Scope	102
Definitions.....	103
Control over a capital asset.....	104
Tangible and Intangible Assets	105
Identification and types of capital assets	106
Initial measurement for the recording of capital assets	112
Movable capital assets.....	112
Immovable capital assets.....	112
Elements of cost.....	113
Fair value	114
Subsequent measurement	115
Removal	116
Disclosures.....	116
Comparison with equivalent Standards of GRAP dealing with non-financial assets	118
Appendix – Accounting and Reporting for Immovable Assets.....	119

This Chapter formed part of the original Standard published in 2013 and has since then been considered for improvement as part of the amendments process conducted by the National Treasury's Office of the Accountant-General, more specifically:

- Amendments to the Modified Cash Standard (Issued 31 March 2022); and
- Amendments to the Modified Cash Standard (Issued 31 March 2025).

Objective

- .01 The objective of this Chapter is to provide guidance on the identification of and the types of capital assets in the public sector. It further prescribes the accounting treatment for capital assets in the secondary financial information to the annual financial statements.

Scope

- .02 **A department that prepares and presents financial statements under the modified cash basis of accounting shall apply this Chapter in accounting for capital assets for the purposes of secondary financial information. The accounting requirements in respect of the primary financial information (i.e. the expenditure relating to the acquisition / maintenance etc.) are dealt with in Chapter 8 on *Expenditure*.**
- .03 This Chapter applies to capital assets including:
- (a) investment properties;
 - (b) biological assets;
 - (c) specialised military equipment;
 - (d) heritage assets;
 - (e) infrastructure assets
 - (f) intangible assets; and
 - (g) other immovable and movable items of capital assets
- .04 **A department shall apply the principles in this Chapter to assess whether it has a capital asset and if so the type of capital asset purchased before applying the recognition and measurement principles in Chapter 8.**
- .05 **This Chapter does not apply to:**
- (a) **intangible assets arising from powers and rights conferred to a department by legislation, a constitution, or by equivalent means;**
 - (b) **agricultural produce after the point of harvest;**
 - (c) **the initial recognition and initial measurement of capital assets acquired in a transfer of functions (see Chapter 19 on *Transfer of Functions*) or a merger (see Chapter 20 on *Mergers*); and**
 - (d) **inventories.**
- .06 Departments may execute a regulatory right, referred to in .05 (a) above, over certain activities, for example fishing, mining or industries such as telecommunications and energy. These regulatory rights and the power to transfer, license, rent or execute such rights are excluded from the scope of this Chapter and are not accounted for by departments. These rights once issued, are usually an intangible asset of those individuals or entities that acquired each right, provided that the acquirer can demonstrate that the definition and criteria for recording an intangible asset are met.
- .07 Similarly, a department's right to levy taxes is granted in terms of statute. Rights arising from statute are excluded from the scope of this Chapter as departments are not required to account for such rights.

Definitions

.08 *The following terms are used in this Chapter with the meanings specified:*

A **biological asset** is a living animal or plant.

Capital assets are non-current tangible or intangible assets.

Class of assets means a grouping of assets of a similar nature or function in a department's operations that is shown as a single line item for the purpose of disclosure in the financial statements.

Cost (for the purpose of this chapter) is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction, or the deemed cost where this has been determined.

Deemed cost is a surrogate value for the actual cost of a capital asset on initial recording in the asset register where the actual cost is not known.

Development is the application of research findings or other knowledge to a plan or design for the production of new or substantially improved materials, devices, products, processes, systems or services before the start of production or use.

Exchange transactions are transactions in which one department receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

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

Heritage assets are capital assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

An **immovable asset** is a capital asset consisting of land, certain infrastructure, buildings or a combination thereof.

An **intangible asset** is an identifiable non-monetary asset without physical substance.

Investment property is a property (land or a building or part of a building or both) held with the primary purpose of earning rentals or for capital appreciation or both, rather than for:

- (a) use in the production or supply of goods or services or for administrative purposes; or,
- (b) sale in the ordinary course of operations.

A **major capital asset** is a tangible or intangible capital asset that costs equal to or more than a threshold value specified by treasury from time-to-time.

A **minor capital asset** is a tangible or intangible capital asset that costs less than a threshold value specified by treasury from time-to-time.

A **movable asset** is a capital asset that is not an immovable asset as defined.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, a department either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange.

Owner occupied property is property held (by the owner or lessee under a finance lease) for use in the production or supply of goods or services or for administrative purposes

Research is original and planned investigations undertaken with the prospect of gaining new scientific or technical knowledge and understanding.

Tangible assets are non-monetary assets having physical substance that:

- (a) are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes or for the development, construction, maintenance or repair of other capital assets; and
- (b) are expected to be used during more than one reporting period.

Terms defined in other chapters are used in this Chapter with the same meaning as in those other chapters.

Assets

- .09 The definition of an asset, as discussed in Chapter 2 on *Concepts and Principles*, has three components which must all be satisfied in order for an item to be classified as 'an asset' for accounting purposes. These components are:
 - (a) the department has the power and capacity to control the service potential or future economic benefits of the asset;
 - (b) the service potential or future economic benefits arose from past transactions or events; and
 - (c) the asset has future service potential or economic benefit for the department.

Control and mandate

- .10 Legal title and physical possession are good indicators of control but the right of ownership is not essential. The key principle is that of control over the economic benefits or service potential flowing from the item rather than the 'physical' control. The capacity of a department to control or direct benefits may be the result of legal rights, but the right to the benefits or service potential to be enjoyed may result in the item satisfying the definition of an asset even when there is no legal title.
- .11 When assessing control over assets the service delivery mandate delegated to the department should be taken into account as well as accountability to oversight structures with regards to the assets. Consideration should also be given to the obligation to set policy and standards with regards to management and the measure of influence over the entire lifecycle of the asset, including disposal decisions. Various factors can individually or in combination indicate towards control for example, making of demand assessments, bearing of losses, budget for construction projects and or maintenance.
- .12 With regards to immovable assets, consideration should also be given to the legislative requirements relating to specific mandates. Reporting in line with the legislative framework is contained in Appendix A of this Chapter and is an integral part of this Chapter.

Past transactions or events

- .13 Capital assets are accounted for at the point when some event or transaction transfers control over the asset to the department. This usually occurs when the department either pays for the asset, takes possession of the asset or when it completes a project to develop/construct the asset to the point where it is ready for use. It is essential that the past event giving rise to control be identified as transactions or events expected to occur in future do not give rise to assets.

Future economic benefit or service potential

- .14 The future economic benefit or service potential embodied in an asset is the potential to contribute directly or indirectly, to the flow of cash and cash equivalents to the department or to the rendering of services by the department. This potential can be in a productive manner as part of the operating activities of the department or the capability to reduce cash outflows such as in an alternative method of delivering a service which reduces the cost of delivering the service. Assets that are used to generate net cash inflows are usually described as embodying 'future economic benefits'. Assets that are used to deliver goods and services in accordance with a department's mandate but do not directly generate net cash inflows are often described as embodying 'service potential'. In applying the asset definition to the public sector environment, the focus is mostly on future service potential rather than future economic benefits as the concept of 'commercial return' for assessing whether an asset should be recognised / recorded is not always applicable to public sector entities, as they mostly provide public services and redistribute wealth for a variety of social and economic purposes.
- .15 Departments may consider the following in assessing service potential, however not all the responses need to be positive in order to assess service potential:
- (a) Will the asset provide any benefit to the department that controls it?
 - (b) Does the asset have potential to support programme delivery?
 - (c) Does the asset have a resale value?
 - (d) Can the asset be exchanged for something else that is useful to the department?
 - (e) Will the asset save the department money in the future?

Tangible and Intangible Assets

- .16 Tangible assets are assets that have a physical form. Tangible assets include assets such as machinery, buildings and land. In contrast, intangible assets are non-physical capital assets, such as patents, trademarks, copyrights etc.
- .17 Not all intangible items meet the definition of an intangible asset for the purposes of financial reporting as they are not, for example, identifiable.

Identifiability of an intangible asset

- .18 **An asset meets the identifiability criterion in the definition of an intangible asset when it:**
- (a) is separable, i.e. is capable of being separated or divided from the department and sold, transferred, licenced, rented or exchanged, either individually or together with a related contract, identifiable asset or liability, regardless of whether the department intends to do so; or**

(b) arises from binding arrangements (including rights from contracts) regardless of whether those rights are transferable or separable from the department or from other rights and obligations.

- .19 For the purpose of this Chapter, a binding arrangement is any arrangement that confers enforceable rights and obligations on the parties as if it were in the form of a contract.

Identification and types of capital assets

- .20 **An item shall be regarded as a capital asset and be recorded as such if, and only if:**
- (a) it is probable that future economic benefits or service potential associated with the item will flow to the department; and**
- (b) the cost or fair value of the item can be measured reliably.**
- .21 The principles in paragraphs .74 to .79 and .82 to .86 should be applied in determining the cost or fair value of a capital asset.

Loose tool, spare parts and servicing equipment

- .22 Spare parts and servicing equipment are usually accounted for as inventory, depending on the intention of the use thereof. However, certain spare parts and stand-by equipment qualify as capital assets when a department expects to use them during more than one period. Similarly, if the spare parts and servicing equipment can be used only in connection with a capital asset, they are accounted for as capital assets.
- .23 Loose tools, such as saws, spades, knives, axes, hammers, screwdrivers and spanners or wrenches, are normally not treated as capital assets, even though they are often used repeatedly, or continuously, in production over many years. This is because such tools are small and relatively inexpensive and usually not carried in considerable quantities. However, where expenditure on such tools takes place at a fairly steady rate their value may become material and then can be treated as minor capital assets otherwise where insignificant, as a consumable.
- .24 Some degree of flexibility is however needed, depending on the importance of such tools. For example, a department may have a very extensive maintenance unit where the total value of the tools is high. These tools may be treated as capital assets and their acquisition and disposal recorded as such. Another option is for example where medical toolkits which include scalpels, forceps, tongs etc. are treated as one unit and as a major capital asset if the value of all the items in the toolkit together exceeds the capitalisation threshold.

Safety equipment

- .25 Safety equipment acquired to meet environmental regulations qualifies as a capital asset if they enable related assets to generate future economic benefits or service potential in excess of what these benefits would have been if this safety equipment was not acquired.

Library material

- .26 Departments purchase library material for use in schools or community libraries or for their own purposes such as for research. Library material may comprise of books, journals (sometimes bound annually), manuscripts, audio CDs, posters, magazines etc. Such material would be accounted for in accordance with this Standard when it meets the definition of a capital asset (intangible or tangible).

Investment properties

- .27 An investment property is a capital tangible asset (land, buildings, or a property consisting of both) that generates its own cash flows (in the form of rental revenue) or is held for capital appreciation, or both. The following are examples of investment property:
- (a) Land held for long-term capital appreciation rather than for disposal, e.g. through sale or transfer, in the ordinary course of operations. For example, excess to needs land held by a department for capital appreciation which may be sold at a beneficial time in the future;
 - (b) Land held for a currently undetermined future use. Land is held for a currently undetermined future use when:
 - (i) The department has not determined that it will use the land as owner-occupied property;
 - (ii) The department does not hold the land for sale in the ordinary course of operations;
 - (iii) The department has not determined that it holds the land for strategic purposes;
 - (c) A building owned by the department (or held by the department under a finance lease) and leased out under one or more operating leases on a commercial basis. For example, a property management company may own a building that it leases on a commercial basis to external parties;
 - (d) A property owned by the department and leased out at a below market rental. For example, a municipality may own an office building which it leases to external parties at a below market rental to promote urban regeneration;
 - (e) A property that is being constructed or developed for future use as investment property.
- .28 Rent earned does not have to be at a commercial basis or market related for the property to be classified as investment property.
- .29 If the portions of the property can be sold separately then the portion held to earn rental is investment property.
- .30 The following are examples of items that are not investment property and are therefore outside the scope of this Standard:
- (a) Property held for sale in the ordinary course of operations or in the process of construction or development for such sale
 - (b) Property being constructed or developed on behalf of third parties.
 - (c) Owner-occupied property, including (among other things)
 - Property held for future use as owner-occupied property,
 - Property held for future development and subsequent use as owner-occupied property,
 - Property occupied by employees (whether or not the employees pay rent at market rates) and
 - Owner-occupied property awaiting disposal.
 - (d) Property that is leased to another entity under a finance lease.
 - (e) Property held to provide goods and services and also generates cash inflows. For example, an department may hold a large housing stock used to provide housing to low income families at below market rental. Where the provision for housing is within the mandate of the department, the property is held to provide housing services rather than for rentals or capital appreciation and

rental revenue generated is incidental to the purposes for which the property is held. Such property is not considered an “investment property” and would be accounted for as other capital assets (other buildings, etc.).

- (f) Property held for strategic purposes which would be accounted for as other Capital Assets (other buildings, etc.).

- .31 In determining whether a capital asset should be classified as investment property, a department considers the main purpose of the property and whether the most significant use of the property is to earn rental or for capital appreciation. For example, when a department owns a building, mainly used for the delivery of social housing, but rents out a floor of the building to shops, banks and other external parties, the building should not be classified as investment property as its main purpose and most significant use is the provision of social services. This should be the case irrespective of whether the rental earned from the one floor of the building is significant in relation to the rental earned from the remainder of the building.
- .32 In some cases, entities hold some property that includes a portion that is held to earn rentals or for capital appreciation rather than to provide services and another portion that is held for use in the production or supply of goods or services or for administrative purposes. For example, a government department may own a building, part of which is used for administrative purposes, and part of which is leased out as apartments on a commercial basis. If these portions could be sold separately (or leased out separately under a finance lease), a department accounts for the portions separately. If the portions could not be sold separately, the property is investment property only if an insignificant portion is held for use for administrative purposes.

Biological assets

- .33 Biological assets are living animals and plants. Examples of animals to be included in this category are dairy cattle, wool-producing animals, breeding stocks, game, and police dogs. Examples of plants are trees, vines and shrubs cultivated for production of fruits, nuts, sap, resin, bark and leaf products. Biological assets also include animals held for recreational purposes, such as game.
- .34 Biological assets usually undergo a biological transformation for example, plants grow and mature producing a product for harvest or being harvested itself and animals grow and age, increasing the value thereof and can also result in natural increase. This transformation process, when actively managed and produce harvested is referred to as an agricultural activity. Agricultural activity can result in additional biological assets or inventory.
- .35 Slaughtered animals, felled trees and harvested crops no longer meet the definition of biological assets and should accordingly be regarded as inventory until it is sold or distributed.
- .36 Biological assets can also be managed for conservation purposes such as in the national parks. This active management is however not agricultural activity as the main objective is not to harvest (or produce additional biological assets for harvest) but manage and maintain a specific environment as a whole. The element and degree of control that a department brings to bear, such as monitoring numbers through culling excess or conservation of rare or endangered species, should be assessed to ascertain whether these biological assets meet the definition of capital assets.
- .37 Biological assets exclude any cultures, cells, bacteria and viruses used in laboratory purposes or as inputs into vaccines etc. Items used for research purposes are classified as “current expenses” in the period incurred.

Heritage assets

- .38 A capital asset is classified as a “heritage asset” because of its cultural, environmental or historical, natural, scientific, technological or artistic significance. Examples of heritage assets include historical buildings and monuments, archaeological sites, conservation areas and nature reserves and works of art.
- .39 Certain characteristics, including the following, are often displayed by heritage assets (although these characteristics are neither exhaustive nor exclusive to such assets):
- (a) their value in cultural, environmental, educational and historical terms is unlikely to be fully reflected in a financial value based purely on a market price;
 - (b) legal and/or statutory obligations may impose prohibitions or severe restrictions on disposal by sale;
 - (c) they are often irreplaceable and their value may increase over time even if their physical condition deteriorates; and
 - (d) it may be difficult to estimate their useful lives, which in some cases could be several hundred years.
- .40 Some heritage assets have more than one purpose, e.g. an historic building which, in addition to meeting the definition of a heritage asset, is also used as office accommodation. The department needs to determine whether the significant portion of the asset meets the definition of a heritage asset. The department must use its judgment to make such an assessment. The asset should be accounted for as a heritage asset if, and only if, the definition of a heritage asset is met, and only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. If, however, the definition of a heritage asset is not met, or a significant portion is held for use in the production or supply of goods or services or for administrative purposes, the asset should not be accounted for as a heritage asset. Instead, the department should account for the asset as any other applicable asset.

Infrastructure assets

- .41 Some assets are commonly described as “infrastructure assets”. While there is no universally accepted definition of infrastructure assets, these assets usually display some or all of the following characteristics:
- (a) they are part of a system or network;
 - (b) they are specialised in nature and do not have alternative uses;
 - (c) they are generally immovable; and
 - (d) they may be subject to constraints on disposal.
- .42 Although ownership of infrastructure assets is not confined to entities in the public sector, significant infrastructure assets are frequently found in the public sector. Infrastructure assets meet the definition for capital assets. Examples of infrastructure assets include road networks, sewer systems, water and power supply systems and communication networks.

Specialised military equipment

- .43 Specialised military equipment such as military aircraft, guided missile systems and marine equipment will normally meet the definition for capital assets and should be accounted for as such in accordance with this Standard.

Internally generated intangible assets

- .44 It is sometimes difficult to assess whether an internally generated intangible asset qualifies as an intangible asset because of problems in:
- (a) identifying whether and when there is an identifiable asset that will generate expected future economic benefits or service potential; and
 - (b) determining the cost of the asset reliably. In some cases, the cost of generating an intangible asset internally cannot be distinguished from the cost of maintaining or enhancing the department's day-to-day operations.
- .45 Therefore, in addition to complying with the general requirements for the recognition of an intangible asset, a department applies the requirements and guidance in paragraphs .48 to .55 to all internally generated intangible assets.
- .46 To assess whether an internally generated intangible asset should be accounted for as such, a department classifies the generation of the asset into:
- (a) a research phase; and
 - (b) a development phase.
- Although the terms 'research' and 'development' are defined, the terms 'research phase' and 'development phase' have a broader meaning for the purpose of this Chapter.
- .47 If a department cannot distinguish the research phase from the development phase of an internal project to create an intangible asset, the department treats the expenditure on that project as if it was incurred in the research phase only.

Research phase

- .48 **No intangible asset arising from research (or from the research phase of an internal project) shall be recorded as an asset. Research expenditure is included as part of current expenditure in the financial statements as per Chapter 8.**
- .49 In the research phase of an internal project, a department cannot demonstrate that an intangible asset exists that will generate probable future economic benefits or service potential.
- .50 Examples of research activities are:
- (a) activities aimed at obtaining new knowledge;
 - (b) the search for, evaluation and final selection of, applications or research findings or other knowledge;
 - (c) the search for alternatives for materials, devices, products, processes, systems or services; and
 - (d) the formulation, design, evaluation and final selection of possible alternatives for new or improved materials, devices, products, processes, systems or services.

Development phase

- .51 **Capitalisation of costs to the carrying value of an asset commences with the development phase, subject to paragraph .52.**
- .52 **An intangible asset arising from development (or from the development phase of an internal**

project) shall be accounted for as such, and only if, the department can demonstrate all of the following:

- (a) the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- (b) its intention to complete the intangible asset and use or sell it;
- (c) its ability to use or sell the intangible asset;
- (d) how the intangible asset will generate probable future economic benefits or service potential. Among other things, the department can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset;
- (e) the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- (f) its ability to measure reliably the expenditure attributable to the intangible asset during its development.

.53 In the development phase of an internal project, a department can, in some instances, identify an intangible asset and demonstrate that the asset will generate probable future economic benefits or service potential. This is because the development phase of a project is further advanced than the research phase.

.54 Examples of development activities are:

- (a) the design, construction and testing of pre-production or pre-use prototypes and models;
- (b) the design of tools, jigs, moulds and dies involving new technology;
- (c) the design, construction and operation of a pilot plant that is not of a scale economically feasible for commercial production; and
- (d) the design, construction and testing of a chosen alternative for new or improved materials, devices, products, processes, systems or services.

.55 Availability of resources to complete, use and obtain the benefits from an intangible asset can be demonstrated by, for example, a strategic plan showing the technical, financial and other resources needed and the department's ability to secure those resources.

Acquired intangible assets

.56 Some intangible assets may be contained in or on a physical substance such as a compact disc (in the case of computer software), legal documentation (in the case of a license or patent) or film. In determining whether an asset that incorporates both intangible and tangible elements should be treated as part of the tangible capital asset or separately as an intangible asset, a department uses judgement to assess which element is more significant. For example, computer software for a computer-controlled machine tool that cannot operate without that specific software is an integral part of the related hardware and it is treated as part of the tangible capital asset (not disclosed separately). The same applies to the operating system of a computer. When the software is not an integral part of the related hardware, computer software is treated and disclosed separately as an intangible asset.

.57 A Software license renewed annually or renewed after a period shorter than a year is expensed to goods and services as the useful life granted for use of the software license is for less than a year.

Initial measurement for the recording of capital assets

- .58 **Upon initially recording of a capital asset, a department shall determine whether the capital asset is a minor or major capital asset and record the asset as such.**
- .59 The threshold value for distinguishing between minor and major capital assets is determined by the Office of the Accountant-General.

Movable capital assets

- .60 **A movable asset that qualifies for recording as a capital asset shall be measured at its cost.**
- .61 The cost is the cash price equivalent, which for the purpose of this Chapter, is the actual amount paid for the asset. Payment can be made as either a single payment or a series of payments over a period of time.
- .62 **Where a movable asset is acquired through a non-exchange transaction from non-government entities, its cost shall be measured at its fair value as at the date of acquisition.**
- .63 A movable asset may be acquired by way of a donation. For example, vehicles may be contributed to a department by a manufacturer at nil or nominal consideration, to enable the department to perform policing services. An asset may also be acquired through a non-exchange transaction by the exercise of powers of expropriation. Under these circumstances the cost of the item is its fair value as at the date it is acquired. In determining the fair value of a movable asset acquired through a non-exchange transaction, the department applies the principles in paragraphs .82 to .86.
- .64 **Where the cost cannot be determined reliably, the movable asset is measured at its fair value. Where fair value of the movable asset cannot be determined, the movable asset is measured at R1. The use of fair value or R1 as initial measurement for initial recording purposes is regarded as the movable asset's deemed cost.**
- .65 **A movable asset acquired before 1 April 2002 (or another date as approved by the OAG) may be measured at R1 if its cost cannot be reliably measured and its fair value had not been determined prior to the implementation of the Standard. Where the cost or fair value has been determined the asset may be recorded at the available value instead of R1.**
- .66 **The requirement to measure an asset at fair value in paragraphs .62 does not apply in instances where an asset was acquired before 1 April 2002 (or another date as approved by the OAG). Departments are however required to consider the provisions in paragraph .66 in determining an appropriate value to record the asset.**
- .67 A department applies the principles in paragraphs .82 to .86 in determining the fair value of an asset.

Immovable capital assets

- .68 **An immovable asset that qualifies for recording as a capital asset in the asset register shall be measured at its cost.**
- .69 The cost is the cash price equivalent, which for the purposes of this Chapter, is the actual amount paid for the asset or to construct the asset. Payment can be made either as a single payment or a series of payments over a period of time.

- .70 Where an immovable capital asset is acquired through a non-exchange transaction, its cost shall be measured at its fair value as at the date of acquisition.**
- .71 Where the cost of an immovable asset cannot be determined reliably, the immovable asset is measured at its fair value, or R1,000 for asset types referred to in paragraph .72. The use of fair value (or R1,000) as measurement for initial recording of an immovable capital asset in the asset register is deemed cost.**
- .72 The use of R1,000 is only permitted for admiralty reserves, commonages, communal land, inaccessible / mountainous areas, islands, offshore rock outcrops and conservation areas, land parcels with graves and cemeteries, road reserves and seashores.**
- .73 A department applies the principles in paragraphs .82 to .86 in determining the fair value of an immovable capital asset.**

Elements of cost

- .74 The cost of a capital asset comprises:**
- (a) its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates; and
 - (b) any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.
- .75 Examples of directly attributable costs are:**
- (a) compensation of employees directly involved in the construction or acquisition asset to the extent that the department can reliably estimate the amounts to be capitalised;
 - (b) costs of site preparation;
 - (c) initial delivery and handling costs;
 - (d) installation and assembly costs;
 - (e) costs of testing whether the asset is functioning properly, after deducting the net proceeds from selling any items produced while bringing the asset to that location and condition (such as samples produced when testing equipment); and
 - (f) professional fees.
- .76 Recording of costs as part of the cost of an asset ceases when the capital asset is in the location and condition necessary for it to be capable of operating in the manner intended by management. Therefore, costs incurred in using or redeploying an item, are not included. For example, the following costs will not be included:**
- (a) costs incurred while an item capable of operating in the manner intended by management has yet to be brought into use or is operated at less than full capacity;
 - (b) initial operating losses, such as those incurred while demand for the item's outputs build up;
 - (c) costs of relocating or reorganising part or all of the department's operations; and
 - (d) cost of training staff to operate the asset.
- .77 Some operations occur in connection with the construction or development of a capital asset, but are not necessary to bring the item to the location and condition necessary for it to be capable of operating in the manner intended by management. These incidental operations may occur before or during the**

construction or development activities. For example, revenue may be earned through using a building site as a car park until construction starts. Because incidental operations are not necessary to bring an item to the location and condition necessary for it to be capable of operating in the manner intended by management, the revenue and related expenses of incidental operations are recognised in the statement of financial performance in arriving at the net surplus or deficit and included in their respective classifications of revenue and expense.

- .78 The cost of a self-constructed asset is determined using the same principles as for an acquired asset. All costs directly related to the capital project will be accumulated to determine a final cost for the eventual asset. Costs such as wasted materials and labour costs during a strike are considered as abnormal and will not form part of the cost of the asset. Certain costs such as administrative cost for a secretarial office that deals with several projects and other duties will be considered as overheads and not directly attributable to the asset as time is spent on different tasks and not measurable per project. The key factor is that the costs must contribute directly and measurably to the creation of the asset to be taken into consideration. Assets from construction are recorded in the asset register at cost when ready for use. Subsequent costs to complete the project are added to the cost of the asset in the asset register as incurred.

Warranty costs

- .79 When a department acquires an asset, such as a motor vehicle, the invoice price sometimes includes an element relating to the manufacturer's warranty. These costs are deemed to form part of the initial cost of the asset as they are directly attributable to bringing the asset to its location and condition necessary for it to be capable of operating in the manner intended by management. The warranty enables the department to derive service potential from related assets in excess of what could be derived had the warranty not been there. The cost of the warranty is therefore accounted as part of the asset acquisition cost.

Assets transferred between departments

- .80 **All capital assets shall be transferred at cost or fair value. The transferor has the responsibility to fair value the capital asset prior to transfer if the capital asset was recorded at R1. The exception is movable assets procured prior to 1 April 2002 (or another date as approved by the OAG), which may be transferred at R1 where these assets were so recorded.**
- .81 Documentation supporting the value at which the asset was transferred should accompany the transferred assets, whether it is invoices or a valuation methodology that can be used to verify the value. A transfer is complete when the documentation is signed by both the transferor and the recipient department.

Fair value

- .82 The fair value of a capital asset is usually its market value determined by appraisal. An appraisal of the value of the asset is normally, but not necessarily undertaken by a member of the valuation profession, who holds a recognised and relevant professional qualification.
- .83 For many assets, the fair value will be readily ascertainable by reference to quoted prices in an active and liquid market. For example, current market prices can usually be obtained for land, non-specialised buildings, motor vehicles and many types of machinery and equipment.
- .84 For some assets, it may be difficult to establish their market value because of the absence of market transactions for these assets. Some departments may have significant holdings of such assets. In

certain circumstances, it may also be costly to undertake a detailed professional valuation of each individual property, particularly for those departments that act as default custodians of the state's immovable assets. To facilitate cost-effective compliance with this Standard and to avoid unnecessary duplication of costs across different spheres of government, departments are encouraged to as far as possible make use of existing available information (for example municipal valuation rolls) as an alternative to undertaking their own professional valuations on each individual immovable asset. If no evidence is available to determine the market value in an active and liquid market of a capital asset, the fair value of the item may be established by reference to other items with similar characteristics, in similar circumstances and location. For example, the fair value of vacant land that has been held for a long period during which time there have been few transactions may be estimated by reference to the market value of land with similar features and topography in a similar location for which market evidence is available.

- .85 A department may need to estimate fair value using a depreciated replacement cost approach. In many cases, the depreciated replacement cost of an asset can be established by reference to the buying price of a similar asset with similar remaining service potential in an active and liquid market. In some cases, an asset's reproduction cost will be the best indicator of its replacement cost. For example, in the case of heritage assets which, in the event of loss, a centuries old parliament building may be reproduced using the same materials and building methods rather than replaced with modern alternative accommodation because of its significance to the wider community.
- .86 In cases where the depreciated replacement cost of a capital asset is required in lieu of fair value, this may be established by reference to the market buying price of components used to produce the asset or the indexed price for the same or a similar asset based on a price for a previous period. When the indexed price method is used, judgement is required to determine whether production technology has changed significantly over the period, and whether the capacity of the reference asset is the same as that of the asset being valued.

Subsequent measurement

- .87 **After initial recording, a capital asset shall be carried at its cost.**
- .88 Currently all capital assets remain in the asset register at their original cost (or deemed cost). Capital assets are not depreciated, componentised or subject to impairment testing or valuation adjustments for appreciation or devaluation. Cost may only be adjusted for capital improvements, to correct an error or on a change of accounting policy.
- .89 **Departments may elect to revalue all or a class of biological assets at its fair value at the reporting date.**

Subsequent costs

- .90 **Any subsequent expenditure incurred on an existing capital asset that is of a capital nature is added to the cost of that asset. Where the subsequent expenditure relates to a project that spans more than one financial year, the project costs are carried in work in progress as incurred and added to the cost of the capital asset when ready for use.**
- .91 A department may construct new facilities or carry out capital improvements on existing property. All the associated costs should be carried in work-in-progress by the department incurring the costs and once the improvements are ready for use, bring the cost to date into its asset register and report on such until final completion of the project. On final completion of the project, when all the contractual

liabilities have been fulfilled, the user department must update its asset register to ensure all costs are accounted for. The department that incurred the cost, where only the user department, shall then transfer the asset at its total cost to the other department which is mandated to manage and report on the asset. Improvements made on property leased from a private party shall be accounted for by the user department on completion.

- .92 The provisions of paragraph .91 do not apply in instances where another public sector entity accounts for the work-in-progress funded by the department.
- .93 A department that has a project with elements of repairs and maintenance, upgrading and additions to it, may have to assess upfront whether the project is significantly a current or a capital project. The project costs may be recorded as part of the capital asset as set out in paragraph .90 where the project is predominantly capital in nature or expensed where not, if the costs cannot be split appropriately.
- .94 **A department does not include in the carrying amount of a capital asset the costs of the day-to-day servicing of the item. Rather, these costs are recognised in surplus or deficit as incurred and in accordance with Chapter 8. Costs of day-to-day servicing are primarily the costs of labour and consumables, and may include the cost of small parts. The purpose of these expenditures is often described as for the 'repairs and maintenance' of the capital asset.**

Removal

- .95 **A capital asset shall be removed from the financial statements:**
 - (a) on disposal; or
 - (b) when no future economic benefits or service potential are expected from its use or disposal.
- .96 **All proceeds shall be recognised in accordance with Chapter 7 on *Revenue*.**

Disclosures

Secondary financial information

- .97 **A department shall disclose the following at cost in its notes with regards to major movable tangible capital assets for each class:**
 - (a) the cost at the beginning and end of the period; and
 - (b) a reconciliation of the cost at the beginning and end of the period (for both the current and the prior year) showing:
 - (i) adjustment due to changes in value (for example, the revaluation of biological assets)
 - (ii) additions; and
 - (iii) disposals.
- .98 **A department shall disclose the following at cost in its notes with regards to minor capital assets for every class (except immovable) (for the current and prior year):**
 - (a) the reconciliation of the opening balance of each class of minor capital assets to the closing balance per category indicating the following:
 - (i) additions; and

(ii) disposals.

(b) the total value and quantities of minor capital assets recorded in the asset register at the end of the reporting period, distinguishing under quantities between recorded at one rand and at cost.

.99 A department shall disclose the total value for every class of movable assets (major and minor) written off as well as the total cost of assets written off, for both the current and prior year.

.100 A department shall disclose the following in its notes with regards to major intangible assets for each class of intangible assets:

(a) the cost at the beginning and end of the period

(b) the movement in intangible assets during the reporting period (for both the current and the prior year) reflecting the following:

(i) additions; and

(ii) disposals.

.101 A department shall disclose the following in its notes with regards to immovable assets:

(a) the cost at the beginning and end of the period in the asset register;

(b) the movement in assets in accordance with the asset register at the end of the period (for both the current and the prior year) showing the following:

(i) additions; and

(ii) disposals.

(c) additional information regarding assets in the register as required for immovable assets in Appendix A

.102 A department shall disclose the total amount of immovable assets written off during the reporting period separately for each class of immovable assets.

.103 A department shall disclose for each class of assets (tangible and intangible), movable (major and minor) and immovable, the number and value of assets under investigation at year end.

.104 Departments required to record work-in-progress in terms of paragraphs .90 to .92 shall disclose the following at cost in its notes with regards to capital work- in- progress for each major class:

(a) the cumulative cash payments made at the beginning and end of the period; and

(b) a reconciliation of the cash payments at the beginning and end of the period (for both the current and the prior year) showing:

(i) capital expenditure in the current year towards capital work- in- progress;

(ii) project assets transferred as non-cash additions to the asset register as they became 'ready for use'; and

(iii) projects removed from work-in-progress as a result of being stopped or abandoned during the year.

(c) the amount of payables not recognised and claimed at year-end, relating to projects but excluded from work-in-progress, for work certified and not yet paid.

Comparison with equivalent Standards of GRAP dealing with non-financial assets

While certain concepts, definitions, and disclosures in this Chapter are drawn from the Standards of GRAP dealing with non-financial assets, significant differences exist primarily due to the modified cash basis of accounting and established departmental reporting practices. These differences render a comparison impractical.

Appendix A– Accounting and Reporting for Immovable Assets

The appendix is an integral part of the Chapter. The purpose of the appendix is to provide clarity on the recording of and reporting on immovable assets in the financial statements of the department. This Appendix has been developed after due consideration of various pieces of legislation that govern the acquisition, construction, management and disposal of immovable assets.

1. Recording of land parcels and facilities (State Domestic Facilities)

- 1.1 The National Department of Land Reform and Rural Development (DRDLR) shall record the following:
 - (a) All **un-surveyed** state land, including those from the former TBVC States and Self Governing Territories and state land in the former territory of the Republic of South Africa (pre 27 April 1994);
 - (b) All **surveyed but unregistered** land parcels falling into the custodian function of the department;
 - (c) All land vested with the national government situated in the former TBVC states and the former Self Governing Territories including any communal land located in these areas with the exclusion of land governed by the KwaZulu-Natal Ingonyama Trust Act, 1994 (Act 3 of 1994) as amended;
 - (d) All former South African Development Trust land unless custodianship clearly resides with another party in terms of specific legislation or have been confirmed vested in the province;
 - (e) All land held for land reform purposes; and
 - (f) Any land where the department is deemed to be the custodian.
- 1.2 The National Department of Works and Infrastructure (DPW) shall record and report on the following:
 - (a) All **facilities** used by the national government located on **un-surveyed** land or surveyed but unregistered land including those from former TBVC States and Self Governing Territories and state land in the former territory of the Republic of South Africa (pre 27 April 1994), or located on land governed by the KwaZulu-Natal Ingonyama Trust (pre 24 April 1994) as amended;
 - (b) All land in the former territory of the Republic of South Africa (pre 27 April 1994) **registered** in the name of the *National Government of the Republic of South Africa*, where custodial powers have not been assigned to another national department in terms of section 4 of the GIAMA;
 - (c) All land in the former territory of the Republic of South Africa (pre 27 April 1994) **registered** in the name of any of the historical holders of national state land (e.g. Governor of the Cape of Good Hope; Union of South Africa; Minister of Lands, Republic of South Africa; etc.) before the advent of the democratic dispensation in 1994, that is deemed to vest in the national government, where custodial powers have not been assigned to another national department in terms of section 4 of the GIAMA;
 - (d) All land **vested** with national government and situated in the former TBVC states and Self Governing Territories occupied by a national department in support of its service delivery objectives (e.g. a magistrate's court or prison) and where DPW performs the custodial functions (barring the disposal thereof) in terms of section 4 of the GIAMA;
 - (e) All former South African Development Trust land, which by proclamation vest with DPW;
 - (f) All **surveyed but unregistered** land parcels falling within the custodian function of the department;
 - (g) All **facilities** constructed and used by the national government on land where DPW is not the custodian subject to the terms of any agreement written or oral;
 - (h) All properties acquired by DPW for the discharge of its mandate;

- (i) Any properties that fall within the custodianship of the national government through a process of law or other process except those specifically related to land reform;
- (j) Any properties listed in the Deeds Registry as State properties not claimed by another custodian (national or provincial) until such time as a rightful custodian can be identified; and
- (k) Any property where the department is deemed to be the custodian.

1.3 Provincial custodians should record and report on the following:

- (a) All properties confirmed **vested** with a province shall be recorded by the department to which the Premier has designated the function for the administration of such assets. In the absence of such delegation, the assets shall be recorded by the Premier's office;
- (b) Where more than one custodian exists in a province, legislation should prevail for example, land parcels designated for human settlement (including areas for roads and public open spaces related thereto) should be recorded by the Department of Human Settlements as the custodian in terms of National Housing legislation;
- (c) All **facilities** used by the provincial government located on **un-surveyed** land, or surveyed but unregistered land or land governed by the KwaZulu-Natal Ingonyama Trust Act, 1994 (Act 3 of 1994) as amended;
- (d) Any properties where the province is deemed to be the custodian;
- (e) All facilities constructed, used and or maintained relating to a provincial function but not on provincial land, subject to the terms of any agreement written or oral; and
- (f) All **surveyed but unregistered** provincial land parcels falling within the custodian function of the province.

1.4 Other custodians should record and report on the following

- (a) All properties where custodianship is confirmed vested in them through section 4 of the GIAMA;
- (b) All land allocated by legislation, proclamations or assignment prior to the GIAMA e.g. land allocated for construction and storage of water reserves, land parcels and or structures in foreign territories used for international relations activities, land for the cultivation of forestry, land for strategic defence purposes, or for use to create human settlement and to be administered by the relevant functional departments; or
- (c) Properties assigned to custodians through section 18 of GIAMA.

2. Road construction, recording and reporting

In the preceding paragraphs the focus was on the recording of land parcels and facilities (administration buildings, schools and hospitals etc.) constructed thereon, as separable assets. Different types of construction can however take place on a land parcel which may result in the creation of an immovable asset. An example is the construction of roads by national and provincial departments creating road infrastructure to advance movement of goods and persons. These networks (consisting of bridges, tunnels, drainage, road furniture, etc, which may be managed differently but forming a 'system') add to the immovable asset base of government and needs administration and continued maintenance.

In certain instances, construction of one asset may result in other 'rights' either of use and/or access which may constitute assets and/or obligations that need recording such as quarries and borrow pits, which are integral to construction activities, but especially road construction. The rights and obligations need to be assessed and any possible assets resulting therefrom recorded appropriately.

2.1 Custodians should record and report on

- (a) The land parcels utilised for road construction, also referred to as road reserves;

In recording land parcels related to roads the ownership of such land parcel (as is the principle for land parcels) should be taken into account. Where the land parcel is State owned, the relevant custodian will record the parcel and report thereon in the note for immovables assets in its financial statements. A road however, is usually constructed across multiple land parcels and it is thus important to determine which road reserves should be recorded and the classification – an immovable asset or an intangible right of use/access or not at all.

- (b) The whole completed road structure (as defined) and as a separable asset (without reference to land ownership in the note for immovable assets in its financial statements).

2.2 Budget holders should record and report on:

- (a) The road structure as capital work-in-progress while construction is underway;

The cost of the actual road structure should be accumulated by the budget holder as incurred and the movement reflected year on year in the note for capital work-in-progress in its financial statements.

- (b) The road asset when ready for use, the status so identified as per criteria or policy of the budget holder;

When the road is ready for use the cost of the structure to date should be taken from capital work-in-progress to the asset register of the budget holder. The movement will be reported on in the note for immovable assets and capital work-in-progress in the financial statements.

- (c) Additional cost to complete the structure from its ready for use status to completion (prior to the transfer to the custodian) and added to the road asset in the asset register;

On completion of the structure and fulfilment of contractual obligations, the budget holder should update its asset register and then transfer the total cost of the road from its asset register to the custodian, using the section 42 process. Reporting by the budget holder will depend on the status of the section 42 process, as is the case for all capital assets. The custodian will on acceptance of the transfer update its asset register and report on the asset in the notes for the immovable assets in its financial statements.

- (d) Where the budget holder is also the custodian the asset (the road structure) will remain in the asset register at final cost and reported on in the note for immovable assets in its financial statements.

2.3 Roads classification for reporting purposes are aligned to the **Roads Infrastructure Strategic Framework for South Africa, 2006**. The classification covers six different types of roads according to purpose and function.

The full classification is summarised as follows:

Class	Type road	Nature of road
1	Primary distributor	Public roads between, through and within regions of national importance e.g. between key cities, ports, neighbouring countries
2	Regional distributor	Public roads between, through and within centres of provincial importance e.g. between capitals, large towns and municipal centres

3	District distributor	Public roads through and within centres and towns and linking with rural residential areas, industrial/farming areas
4	District collector	Public roads between, through and within villages, farming areas, scattered settlements and commercial, residential and industrial areas
5	Access road	Public roads between class 3 and 4 type roads and residential areas, within residential areas and roads providing direct access to industries, business and specific destinations such as heritage sites, national parts and safe mobility of pedestrians and non-motor transport
6	Non-motorised access ways	Rights of way that provide safe dedicated access for pedestrians, cyclists and animal drawn transport to social, recreational and economic areas

2.4 Roads structures for recording and reporting purposes:

- (a) Road classes must be recorded and reported by national and provincial custodians (or by budget holders during construction, where relevant).
- (b) Roads currently under construction: All cost relating to the entire road structure (as defined) should be recorded as part of capital work-in-progress as construction costs are incurred by the budget holder and reported on in the relevant note for capital work-in-progress to the financial statements (and Annexure thereto) including related payables (limited to progress certificates / invoices received not paid).

2.5 Rights associated with road construction

Different rights could emanate from road construction activities which should be assessed to ascertain whether any capital assets need to be recorded. The following should be considered:

- (a) Rights obtained to access land but which is not State land (as defined), during the construction phase, may be an intangible asset and should be assessed and recorded and reported on as such (the land parcel in this instance is not the asset) at cost. Access is usually allowed to a specific portion of a land parcel by the owner or permanent resident and by agreement (the duration and terms of agreement will be indicative including the cost of the right);
- (b) A mining permit or license (whichever is applicable) obtained for mining of aggregate is also a right and should be considered for recording as an intangible asset at cost (a 2004 regulation issued by Minerals and Energy exempted Sanral and roads departments from the legislative requirements to apply for permits or licenses to mine but not the requirement to have an environmental management plan);
- (c) A borrow pit or quarry should not be recorded as an immovable asset even though connected to land (rights relating to the land parcel should be assessed). The 'asset' in the case of a borrow pit or quarry is the aggregate taken out which is inventory by nature (construction material) and not currently a reporting requirement (in instance where the land parcel on which the pit / quarry is located, is State land, the land parcel shall be recorded together with all other land parcels by the custodian);
- (d) The remaining aggregate (or potential inventory) is not recorded or reported on;

- (e) A borrow pit or a quarry may be utilised over a period of time and for different construction activities and the cost of extraction becomes part of the cost of the road structure and should be allocated to the different projects. The equipment used to extract and transport the aggregate will be capital assets in their own right and should be recorded and reported on in the appropriate note for capital assets in the financial statements;
- (f) Rights as described above must all be assessed and where appropriate recorded in an asset register and reported on in the relevant note to the financial statements in accordance with the following timeline:
 - (i) All rights relating to pits and quarries newly established for use on projects to be operated during 2019/2020 or thereafter, assessed, recorded and reported on by the end of the financial year, ending 31 March 2020;
 - (ii) All rights relating to pits and quarries newly established and actively used for projects during the period 1 April 2017 – 31 March 2019 assessed, recorded and reported on by the end of the financial year, ending 31 March 2021;
 - (iii) All rights relating to pits and quarries newly established and actively used for projects during the period 1 April 2015 – 31 March 2017 assessed, recorded and reported by the end of the financial year, ending 31 March 2022;
 - (iv) All rights relating to pits and quarries newly established and actively used for projects during the period 1 April 2013 – 31 March 2015 assessed, recorded and reported on by the end of the financial year, ending 31 March 2023;
 - (v) All rights relating to pits and quarries established and used for projects before the period starting 1 April 2013 assessed, recorded and reported on by the end of the financial year, ending 31 March 2025;
 - (vi) All rights relating to pits and quarries, must also, when assessed within the required timeline and at every reporting date thereafter, be distinguished based on whether still active or inactive. Where assessed as inactive the estimation should also indicate whether it is a permanent or temporary situation. The list of permanently inactive pits and quarries must be matched to the obligations as set out under 2.6 below and the provincial environmental management and rehabilitation plan.

2.6 Potential liabilities associated with road construction

- (a) The use of land parcels for mining of aggregate during construction such as for the creation of borrow pits and quarries has an environmental impact which may lead to a potential outflow of resources to make the land parcel safe and fit for alternative use or back to its previous condition;
- (b) In terms of legislation the topsoil (which includes ground to the water level) of a potential borrow pit or quarry must be removed and stored safely for rehabilitation on closing down of the facility. The storage of such material is a responsibility (of the holder of the right to access/use) during active use of the pit or quarry and may incur a cost for storage and transport to initially remove and later bring back to site on closing of the facility;
- (c) Environmental legislation requires reversing of the damage done during excavation, which can be enforced despite an agreement entered into with the land owner or permanent resident not to repair. The reversal of damage may entail (apart from replacement of the topsoil) reseedling of plants and grasses, reintroducing and populating living creatures previously found in the area;
- (d) The potential outflow as a result of responsibilities as mentioned above must be assessed, recorded and reported on in terms of Chapter 14 on *Provisions and Contingents*.

3. Reporting on land parcels and facilities

The recording and reporting principles listed below must be applied (depending on the specific reporting framework used, it may require additional disclosure, including measurement and recognition considerations, by the trading entity):

- (a) All land for which an endorsed title deed is on hand in the name of the appropriate government, national or provincial, should be recorded in the Asset Register of the custodian and reported on in the note for immovable assets in the financial statements;
- (b) All land which an Item 28(1) Certificate (or Section 239 Certificate) has been issued, should be recorded in the Asset Register of the custodian so appointed and reported on in the note for immovable assets in the financial statements;
- (c) All land by virtue of legislation is under the custodianship of a national or provincial custodian and where there is no requirement to vest such land, should be recorded in the Asset Register of the relevant custodian and reported on in the note for immovable assets in the financial statements;
- (d) All land for which a title deed is on hand in the name of a national or provincial government (including those in the name of a recognised historical name for the province or national) or confirmed with the Deeds Registry, and appropriate for the custodian, should be recorded in the Asset Register of that custodian and reported on in the note for immovable assets in the financial statements, read with Section 239 of the Constitution, Act 200 of 1993;
- (e) all property which is deemed to vest in the custodian (per definition) should be recorded in the Register of the deemed custodian and reported on in a narrative format below the note for immovable assets in the financial statements;
- (f) land not yet surveyed should not be included in the Asset Register of the DRDLR but separately disclosed in a narrative form, reflecting the province it is situated in and an estimation of when it will be surveyed, below the disclosure note for immovable assets in the financial statements;
- (g) all surveyed but unregistered land parcels, without Item 28(1) Certificates, should be reflected in the Register of the relevant national or provincial custodian and reported on in an annexure to the financial statements, reflecting movement during the year of properties registered;
- (h) all facilities constructed on land not yet surveyed and occupied by a national or provincial department must be recorded in a separate Register by the national custodian or relevant provincial custodian and reported on in a narrative format below the note for immovable assets in the financial statements, indicating the number of facilities, functions of the facilities and average duration of any agreements to use;
- (i) all facilities constructed on land where only a right to use exists must be recorded in a Register and reported on in a narrative format below the note for immovable assets in the financial statements, indicating the number of facilities, functions of and duration of use as per the right given (the 'right to use' may be an intangible asset and should be assessed against the definition);
- (j) properties, for which an agreement of custodianship had been reached and a transfer received, (was in another register before) complying with Section 42 (of the PFMA), must be recorded in a separate Register and disclosed in a narrative note to the financial statements, awaiting vesting. The note should indicate the number of land parcels. A reconciliation indicating movement during the year in terms of transfers received and issued, should be indicated (it must be noted that the Section 42 transfer is not a substitute for the vesting process);
- (k) the national custodian must present in narrative format an overall view reflecting requests for Item 28 (1) Certificates lodged and issued for national custodians and per province during the year, as well as the balance to be issued. An estimate should be given for issuing the remainder with

motivation for the timeline. An overall view of total land parcels still to be vested could be given by the national custodians expressed as a percentage of total identified state land, where available;

- (l) construction of or improvement to a facility on a custodian's land should be recorded in the Asset Register of the budget holder when the asset is ready for use and reported on in the note for immovable assets in the financial statements. On final completion of the project the asset must be transferred to the relevant custodian fulfilling the requirements of Section 42 of the PFMA. In the year of transfer (both parties signed the transfer form) it must be recorded in the Asset Register of the custodian and reported on as a non-cash transfer in, in the notes for immovable assets to the financial statements. The budget holder should record a transfer out in the Asset Register and report a non-cash transfer out in the notes to the financial statements;
- (m) any land acquired by a user for the construction of a facility must be reflected in its Asset Register on registration of title and subsequently transferred to the appropriate national or provincial custodian complying with Section 42 of the PFMA;
- (n) any properties recorded (by the National DPW) as a result of an indication by the Deeds Registry that land is state land, but unclaimed by another custodian, must be recorded in a Register and reported on as a contingent asset in an annexure to the financial statements until such time as the rightful custodian or owner can be identified.

4. Measurement of land and structures

Measurement should be done in line with this Standard. Assets captured in the Asset Register should comply with paragraphs .69 to .73 of the Chapter 11 on *Capital Assets*, which dictates that measurement should be at cost and where not reliably determinable, at fair value.

- (a) Where land parcels are utilised for mixed-use purposes and or where the possible benefit to the department in the use of the land may be limited due to circumstances, it may be necessary to re-assess the determination of the value by the municipality;
- (b) Where land parcels have been subdivided or consolidated the municipal valuation roll value must be assessed to ensure that this information was taken into account by the municipality and that there is no duplication of information;
- (c) When applying an average value to land parcels any limitation in the benefits that may be enjoyed by the department, should be taken into account as it would impact the value of a particular land parcel;
- (d) Where property is held in trust on behalf of beneficiaries (excluding land for human settlement where the land does not meet the definition of a capital asset) the value for exceptional cases can be used;
- (e) Where roads are recorded and the actual cost is not available due to the age of the road, the value used per the roads management system may be used as a deemed cost for the structure;
- (f) Land parcels forming part of the road reserve are valued for inclusion in the asset register in terms of paragraph .92 of this Chapter.

5. Interim arrangements

Until the identification, vesting and recording process has been finalised the following arrangements should be followed:

- (a) The recording of structures constructed or under construction on tribal, communal, private or municipal land will be dependent on the terms and conditions of the agreement with the relevant tribal/communal/municipal authority. Matters to be taken into consideration include the responsibility for the maintenance of the structure in future and or who will pay for the municipal services and or who will benefit from the construction and use of the asset (the transfer to the beneficiary or entity responsible for the long-term maintenance of the structure should be done through the asset register of the budget holder);
- (b) The cost of construction on a custodian's land (new structure or improvement of existing facilities) should be recorded by the budget holder during construction (reported on as capital work-in-progress) and once the facility is ready for use included in the Asset Register of the budget holder (unless exempted by Chapter 11 paragraph .92). On final completion of the project (project close out) the costing should be done by the budget holder and its Asset Register updated. Subsequent to that the facility must be transferred to the appropriate custodian complying with section 42 of the PFMA;
- (c) Structures, ready for use, should be excluded from capital work-in-progress and recorded and disclosed in the asset register from the 2013/2014 financial year forward. The requirement was thus set for prospective application not retrospective. This should allow for newer structures to be recorded at cost of construction on final completion and transfer;
- (d) Where land that should be recorded and disclosed by another custodian (national or provincial) is included in an inappropriate register or asset register, a transfer in terms of Section 42 of the PFMA must be initiated from the side where the land parcel is currently recorded;
- (e) The timing of entitlement that conveys custodianship should be used as guidance for inclusion in the asset register of a custodian, for example:
 - (i) An agreement between national and provincial custodians that property should vest with a provincial custodian is the point where sufficient evidence of custodianship has been provided to request an Item 28(1) Certificate. The assets can be transferred to the provincial custodian using the section 42 process and the assets disclosed in narrative form until the issue of the Item 28(1) Certificate, where after it will be recorded in the Asset Register and disclosed in financial terms in the note to the financial statements as the registration process (with the Deeds Office) can be seen as the administrative completion of the entitlement already gained;
 - (ii) Where a situation of deemed custodianship exists the property can be included in the Asset Register of the deemed custodian but, for available viable reasons, cannot be done at present;
 - (iii) The date as set out in the notification afforded through legislation (for example Schools Act including proclamations, for State-aided schools) will be the date entitlement is gained of custodianship and will be the indicator for inclusion in the relevant Asset Register. The endorsement of the title deed by the Deeds Office will be seen as the administrative completion of entitlement already gained (in these instances the original title was the State and removal of an endorsement administrative);
 - (iv) In circumstances where an Item 28 (1) Certificate is issued for surveyed but unregistered land parcels the custodian must include such land parcels in the Asset Register as the registration process will be seen as the administrative completion of ownership already entitled to. In such circumstances the municipality must be contacted and requested to value the property to ensure a valuation is included in the next supplementary municipal roll. The custodian should include a narrative under the secondary information note to the financial statements relating to immovable assets, to indicate to users the number of such properties included in the Asset Register awaiting valuation by the municipality and valued

- as for exceptional cases in the interim (custodians are discouraged from obtaining costly formal valuations instead of a municipal valuation as this could lead to duplication of effort;
- (v) Where an entire land parcel, previously surveyed, is expropriated for use by the State, the date of entitlement of ownership is seen as the date of the gazette confirming the expropriation (all due processes have been completed at this stage). The land parcel can be recorded in the asset register of the custodian at cost of expropriation or in accordance with the Fair Value Model, where there is no cost. The endorsement of title is seen as an administrative completion of ownership already gained as the land parcel can be uniquely identified in accordance with its cadastral description and valued for reporting purposes;
 - (vi) Where a portion of a land parcel is expropriated for use by the State the date of entitlement of ownership is also seen as the date of the gazette confirming the expropriation. Such a portion and the remainder (other part of the original it used to be part of) must however be separately surveyed as new land parcels, in order to be uniquely identifiable by description. Title to the portion so expropriated cannot be registered with the Registrar of Deeds without the survey. Thus, in this instance though entitlement is gained the process is incomplete and not administrative. The portion must be included in the Register of the custodian with a best approximate description and at cost of expropriation, where applicable, but only reported on as additional information in number of land portions and function, in a narrative format, below the notes to immovable assets in the financial statements. Reasons for the incomplete process must be noted as part of the narrative. As the land parcel cannot be uniquely identified it does not meet the criteria for inclusion in the asset register;
 - (vii) In certain instances, the State can use proclamations to gain access to or the right to use land to enable service delivery. In the case of a proclamation of a road for example, the State takes responsibility for the construction, management and maintenance of the road structure but ownership of the affected land parcels remains with the title holder thereof and does not transfer. Thus, a right to use or access is gained. When access to the land through the road structure is no longer needed, for whatever reason, a proclamation is issued to the effect and the land reverts to the owners for normal use. The land parcels affected by proclamation will therefore not be recorded in the asset register as a land asset. The right of use or access to the land could however be considered for recording. Where assessed as an asset, it should be recorded at cost. The road structure is an immovable asset and recorded as a separable asset in the asset register;
- (f) As an interim measure, where a custodian does not have a reliable cost or fair value and is awaiting the municipal valuation or is still in progress with the valuation process, such as for newly surveyed and vested properties, whether registered or not, the affected properties may be reflected in the asset register at the same value as for exceptional cases. Where this option is used the custodian must indicate the fact, number of such land parcels and reason for the lack of cost and or fair value, as a narrative under the secondary information note for the immovable assets in the financial statements. Under additional information and to indicate the progress made during a particular year towards establishing a fair value for such properties included in the asset register, the custodian must year on year reflect a reconciliation showing the movement in number of parcels and indicate reasons for any lack of progress or increase in numbers;
 - (g) Any issues experienced with measurement (such as mixed use or subdivisions) should be explained in narrative format, giving the user an understanding of the problem. These issues should be addressed during the implementation process of the Model and with a view to possible future alignment to best practice (principles of generally recognised accounting practice) which, may result in different classification and treatment in recording going forward;

- (h) Where custodians have sufficient reason to dispute the municipal value as determined by a municipality (the default valuation method suggested for use), reasons should be documented and a dispute opened with the municipality. During the dispute process and until the issues are resolved the affected land parcels can be measured at the same value as for exceptional cases. Reporting on the fact and on the progress should be done in a narrative format below the notes for immovable assets in the financial statements and an indication given on the number of land parcels affected and timeframes for solution, where possible;
- (i) Where the road assets of a province were previously reported on in alignment with the principle of ownership of the land parcel as for other immovable structures, this status quo may be retained for the 2018/19 reporting period. The policy to report on road structures as separable assets rather than based on land parcel ownership resulting from the view of responsibility for management and maintenance of the total road structure, must however be implemented and reported on in alignment with the requirements and timelines set out in paragraphs 2.3 and 2.4;
- (j) Where servitudes exist, they should be differentiated on between registered and non-registered. The right to these road reserve can be recorded in the register and reflected at cost where available. Information regarding these road reserves, where currently available, can as an interim measure be reflected in a narrative format under the notes for additional information on immovable assets. The number of reserves and the split between registered and non-registered should be indicated until a timeline for recording and reporting has been established by the sector. Reporting as indicated is suggested as additional information to users and to promote transparency regarding assets in general;
- (k) Information currently included with regards to the asset register and register is for purposes of transparency and aligned to the legislative requirements of custodians. Where custodians are not able to reliably quantify issues in financial terms, the issues should be covered as additional disclosure in narrative format, under the section for additional information.

6. Explanation of terms

Admiralty reserve	usually an un-surveyed area wherever it exists, that is mostly delineated as the area between the high water mark and a specific distance inland from the high water mark (the distance to the point of the first surveyed land parcels)
Agreement	consensus has been reached between the national and provincial custodians as to the appropriate custodian of a land parcel and sufficient information has been handed to such custodian to initiate the request for the Item 28 (1) certificate
Asset register	the formal record of assets under the confirmed custodianship of an entity utilised for financial reporting purposes
Commonages	commonage or common pasture lands are lands adjoining a town or village over which the inhabitants of such town or village either have a usufruct right for grazing for their stock, and, more rarely, the right to cultivate a certain portion of such lands, or in respect of which the inhabitants have conferred upon them by regulation certain grazing rights. The modern commonage is characterised by miscellaneous land uses
Communal land	state land allocated to tribal authorities and managed by Department of Rural Development and Land Reform (DRDLR), and other custodians/institutions
Confirmed vested	a property is confirmed vested once the Item 28 (1) certificate has been issued whether title had been registered yet or not
Deemed custodian	<p>where the vesting process has not been finalised but there is sufficient verifiable evidence available that indicates who the appropriate custodian will be using Section 239 of The Constitution, Act 200 of 1993. The following, among others, in combination could be used as possible indicators:</p> <ul style="list-style-type: none"> - the property is occupied/ utilised by the department in performance of a mandate on a full-time / permanent basis and has done so for a considerable length of time; - the property is being used exclusively to provide a service in terms of an allocated Schedule 6 competency (e.g. a school or clinic); - the property is unlikely to be utilised for any other function or transferred to another custodian in the foreseeable future; - there is a responsibility to perform maintenance and or improvements and costs have and are being incurred to this end; - the municipal rates are being paid on a regular basis, (where applicable) for the property and has been done for a considerable period of time; - there is a legal process underway or to be initiated to vest the property with the custodian (for relevant sphere) or sufficient

	<p>verifiable evidence exist to motivate why it has not started as yet;</p> <ul style="list-style-type: none"> - the deemed custodian acknowledges accountability and responsibility for the property; - other evidence that indicates that the department should be the custodian (evidence must be verifiable); - a title deed for the property is not on hand as it has been lost or misplaced and a duplicate must be requested from the relevant Deeds Registrar. However, the property is reflected as State property per the information from the Deeds Office (Aktex); - there is agreement with other custodians with regards to the claim over the land parcel.
Facilities	the structures built on or attached to land parcels and utilised for service delivery and or administration
Final completion	when all contractual obligations under the contract has been fulfilled, including the payment of retention monies, and a final costing can be done and the project closed
Inaccessible / Mountainous areas	areas that is not valued due to their inaccessible geographical location and topographical nature, including proclaimed or non-proclaimed conservation and protected areas
Islands, Offshore Rock Outcrops and Conservation Areas	any piece of sub-continental land that is surrounded by water. Islands can be offshore as well as inland islands (i.e. rivers)
Item 28 (1) Certificate	the certificate issued to confirm vesting also known as the Section 239 Certificate issued in terms of the Constitution to confirm vesting of land in a provincial or national government
Land parcels with Graves and Cemeteries	a land parcel used as a place of burial for the remains of people and usually referred to as a cemetery or graveyard. Although used interchangeably a graveyard is primarily the place with the property of a church
Property	the word is used in its widest form as including land and or structures on the land. The word must thus be read as appropriate for the situation for example, where only land should be recorded only land should be understood
Ready for use	the project has progressed to the stage where the facility can be occupied for use as intended by management for example, access is available for vehicles, people, etc., to the extent that normal business can be conducted
Recognition	accountability to keep a record of the asset for management and reporting purposes
Record	documented detail of the asset in a register or otherwise for management purposes
Reporting	the disclosure of information in the financial statements or the notes thereto in the form of a narration or representation in financial terms

Register	a record of properties (land and or facilities) utilised, but for which no formal title exists in the name of the reporting entity
Registered	a record has been created in the deeds registry for the land parcel
Road	the pathway created or constructed for use, usually by vehicles, motorised or otherwise
Road reserve	the land parcel(s) stretching from 'fence to fence' including the land underneath the road structure (whole road corridor)
Road structure	the entire construction of the road including culverts, bridges (including pedestrian bridges), tunnels, drainage and furniture of the road network
Seashore	the seashore is the land that borders the ocean or sea. The area is typically un-surveyed and consists of the land between the low water mark and the high-water mark commonly referred to as the beach
Self-Governing Territories	territories that were established in terms of the Self-governing Territories Act, 21 of 1971. Examples are the territories formerly known as Kwazulu, Lebowa or Gazankulu
State land	in this document the wording is used to describe land under the ownership of national and/or provincial government
Surveyed land	land parcels for which a formal surveying diagram signed by the Surveyor-General is available
TBVC States	specific territories with a degree of autonomous government established by Proclamation during any period before 27 April 1994 previously known as Transkei, Bophuthatswana, Venda and Ciskei
Transfer	the process of transferring an asset with all relevant documentation as envisaged by legislation (Section 42 of the PFMA). It may not necessarily involve an endorsement of a title deed
Vested	the process followed to conclusion leading to the issue of an Item 28 (1) certificate and eventual endorsement of the title or creation of a title deed
Un-surveyed land	land for which a formal cadastral description and surveying diagram is not available

Chapter 12: Inventories

Chapter content

Objective	134
Scope	134
Definitions.....	135
Inventories.....	135
Recording and measurement of inventory	135
Initial measurement	136
Subsequent measurement	136
Cost of inventories	136
Costs of purchase	136
Costs of conversion	136
Other costs.....	137
Cost of inventories of a service provider.....	137
Inventory acquired through a non-exchange transaction	137
Cost formulas	137
Disclosure.....	138
Transitional provisions	138
Effective date	138
Comparison with GRAP 12 on Inventories	139

This Chapter formed part of the original Standard published in 2013 and has since then been considered for improvement as part of the amendments process conducted by the National Treasury's Office of the Accountant-General, more specifically:

- Amendments to the Modified Cash Standard (Issued 31 March 2025).

Objective

- .01 The objective of this Chapter is to prescribe the identification of and accounting for inventory in the secondary financial information to the annual financial statements.

Scope

- .02 **A department that prepares and presents financial statements under the modified cash basis of accounting shall apply this Chapter in accounting for inventories for the purposes of secondary financial information. The accounting requirements in respect of the primary financial information (i.e. the expenditure relating to the acquisition of inventory etc.) is dealt with in Chapter 8 on *Expenditure*.**
- .03 This Chapter applies to inventory including amongst others:
- (a) ammunition;
 - (b) maintenance materials;
 - (c) spare parts for plant and equipment other than those that qualify as capital assets;
 - (d) strategic stockpiles;
 - (e) work-in-progress related to inventories;
 - (f) harvested biological produce;
 - (g) certain biological assets;
 - (h) educational / training course materials;
 - (i) land and structures held for the purpose of sale/distribution;
 - (j) face-value forms
 - (k) Other capital assets held for distribution, in the ordinary course of operations.
- .04 **This Chapter does not apply to:**
- (a) financial instruments;**
 - (b) biological assets at the point of harvest (see Chapter 11 on *Capital Assets*);**
 - (c) work-in-progress of services to be provided through a non-exchange transaction directly in return from the recipients;**
 - (d) heritage assets (see Chapter 11); and**
 - (e) the initial recognition and initial measurement of inventories acquired in a transfer of functions (see Chapter 19 on *Transfer of Functions*) or a merger (see Chapter 20 on *Mergers*)**
- .05 This Chapter only applies to those goods that are essential for satisfying the service delivery obligation of a department. Accordingly, the following items may be excluded from the scope of this Chapter:
- (a) stationery and printing; and
 - (b) items that are considered to be consumables.

Definitions

.06 **The following terms are used in this Chapter with the meanings specified:**

Inventories are assets:

- (a) in the form of materials or supplies to be consumed in the production process;**
- (b) in the form of materials or supplies to be consumed or distributed in the rendering of services;**
- (c) held for sale or distribution in the ordinary course of operations; or**
- (d) in the process of production for sale or distribution.**

Consumables are items:

- (a) items that are used and replaced on a regular basis;**
- (b) capable of being consumed, destroyed, wasted, discarded or spent;**
- (c) that are in contrast to durable items that can be used repeatedly over a substantial period; and**
- (d) that are not directly linked to the service delivery needs of a department.**

Examples of items that can be considered to be consumable items are ink cartridges, paper, cleaning materials, electrodes in a welding process and food and water.

Terms defined in other chapters are used in this Chapter with the same meaning as in those other chapters.

Inventories

- .07 **Inventory encompasses those goods purchased / produced and held for executing the service delivery mandate of the department. That could include biological assets bought for rearing, slaughter/ harvest and consumption within a short space of time. Where this process extends over more than a year the biological assets will be reflected as capital assets.**
- .08 **Inventories also encompass finished goods produced, or work-in-progress being produced, by the department. Inventories also include materials and supplies awaiting use in the production process and goods purchased or produced by department, which are for distribution to other parties through a non-exchange transaction; for example, educational books produced by an education authority for donation to schools or houses built for distribution to members of the community.**
- .09 **Inventory is recorded when it is purchased / produced and considered as issued when it is no longer under the control of the department. Control is relinquished when the inventory is sold or distributed to the community and delivered or collected. Where a production process is conducted, raw materials are considered as issued when they become part of the production process.**

Recording and measurement of inventory

- .10 **Inventories shall be recorded if, and only if:**
 - (a) it is probable that future economic benefits or service potential associated with the item will flow to the department, and**

(b) the cost or fair value of the item can be measured reliably.

Initial measurement

- .11 Inventories that qualify for recording shall initially be measured at cost.**
- .12 Where inventories are acquired through a non-exchange transaction, their cost shall be measured at their fair value as at the date of acquisition.**

Subsequent measurement

- .13 Inventories shall be measured at the lower of cost and net realisable value, except where paragraph .14 applies.**
- .14 Inventories shall be measured at the lower of cost and current replacement cost where they are held for:**
 - (a) distribution through a non-exchange transaction; or**
 - (b) consumption in the production process of goods to be distributed at no charge or for a nominal charge.**
- .15** The cost of inventories may not be recoverable if it is damaged or it becomes wholly or partially obsolete, if selling prices have declined or if the estimated costs of completion or distribution have increased. The practice of writing inventories down to below cost is consistent with the view that assets should not be carried at a value that is in excess of the future economic benefits or service potential expected to be realised from their sale, distribution or use.
- .16** A department may hold inventories whose future economic benefits or service potential are not directly related to their ability to generate net cash inflows. These types of inventories may arise when a department has determined to distribute certain goods through a non-exchange transaction. In these cases, the future economic benefits or service potential of the inventory for financial reporting purposes is reflected by the amount the department would need to pay to acquire the economic benefits or service potential if this was necessary to achieve the objectives of the department (referred to as the replacement cost).

Cost of inventories

- .17 The cost of inventories shall comprise all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.**

Costs of purchase

- .18** The costs of purchase of inventories comprise the purchase price, import duties and other taxes (other than those subsequently recoverable by the department from the taxing authorities), and transport, handling and other costs directly attributable to the acquisition of finished goods, materials and supplies. Trade discounts, rebates and other similar items are deducted in determining the costs of purchase.

Costs of conversion

- .19** The costs of converting work-in-progress inventories into finished goods inventories are incurred primarily in a manufacturing environment. The costs of conversion of inventories include costs directly

related to the units of production, such as direct labour. They also include the systematic allocation of fixed and variable production overheads incurred in converting materials into finished goods. Fixed production overheads are usually allocated based on expected normal capacity (taking into account stoppage for planned maintenance) and are those cost that do not vary with production. Variable production overheads are those indirect costs of production that vary directly, or nearly directly, with the volume of production, such as indirect materials and indirect labour.

- .20 The allocation of costs, both fixed and variable, incurred in the development of undeveloped land held for sale into residential or commercial landholdings, could for example include costs relating to landscaping, drainage, pipe laying for utility connection etc.

Other costs

- .21 Other costs are included in the cost of inventories only to the extent that they are incurred in bringing the inventories to their present location and condition. For example, it may be appropriate to include non-production overheads or the costs of designing products for specific customers in the cost of inventories.

Cost of inventories of a service provider

- .22 To the extent that service providers have inventories except those referred to in paragraph .04(c), they measure them at the costs of their production. These costs consist primarily of the labour and other costs of personnel directly engaged in providing the service, including supervisory personnel, and attributable overheads. The costs of labour not engaged in providing the service are not included. Labour and other costs relating to general administrative personnel are not included in the cost of inventory and neither are profit margins and non-related overheads.

Inventory acquired through a non-exchange transaction

- .23 Inventories may be transferred to the department by means of a non-exchange transaction. For example, an international aid agency may donate medical supplies to a public hospital in the aftermath of a natural disaster. Under such circumstances, the cost of the inventory is its fair value as at the date it is acquired.

Cost formulas

- .24 **The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects shall be assigned by using specific identification of their individual costs.**
- .25 Specific identification of costs means that specific costs are attributed to identified items of inventory. This is the appropriate treatment for items that are segregated for a specific project. However, specific identification of costs is inappropriate when there are large numbers of items of inventory that are ordinarily interchangeable. In such circumstances, the method of selecting those items that remain in inventories could be used to obtain predetermined effects on the surplus or deficit for the period.
- .26 **The cost of inventories, other than those dealt with in paragraph .23, shall be assigned by using the weighted average cost formula.**
- .27 A department shall use the same cost formula for all inventories having a similar nature and use to the department. For inventories with a different nature or use a different cost formula may be justified. A difference in geographical location of inventories, by itself, is not sufficient justification to utilise a

different cost formula.

Disclosure

- .28 **A department shall disclose the following in its notes with regards to inventories:**
- (a) the accounting policies adopted in measuring inventories, including the cost formula used;**
 - (b) the total carrying amount of inventories at the beginning and end of the reporting period in major categories appropriate to the department; and**
 - (c) a reconciliation of the movement in total inventory carrying value for the reporting period, per major category.**
- .29 The information about carrying amounts held in different categories and the extent of changes therein is useful to financial statement users. Common categories of inventories are farming supplies, medical supplies, food and food supplies.

Transitional provisions

- .30 **A department shall apply the requirements of this Chapter on Inventories prospectively from the effective date of the Chapter. Comparatives will not be required in the year in which this Chapter is first applied to a major category of inventory.**

Effective date

- .31 **A department shall apply this Chapter for annual financial statements covering periods beginning on or after a date to be determined by the Accountant-General.**

Comparison with GRAP 12 on Inventories

The main differences between this Chapter and GRAP 12 are as follows:

- This Chapter only applies to those goods that are essential for satisfying the service delivery obligation of a department. GRAP 12 does not have this explicit scope exclusion.
- The Chapter only permits the use of the weighted average cost formula, whereas GRAP 12 also refers to the use of the first-in, first-out (FIFO) approach.

Chapter 13: Leases

Chapter content

Objective	142
Scope	142
Definitions.....	142
Classification of leases.....	145
Leases in the financial statements of lessees.....	147
Primary Financial Information	147
Secondary Financial Information	147
Leases in the financial statements of lessors	149
Primary financial information.....	149
Secondary financial information.....	150
Sale and leaseback transactions	151
Lessees.....	151
Lessors.....	151
Comparison with GRAP 13 on Leases	152

This Chapter formed part of the original Standard published in 2013 and has since then been considered for improvement as part of the amendments process conducted by the National Treasury's Office of the Accountant-General, more specifically:

- Consequential amendments following the issue of Chapter 19 on *Transfers of Functions* and Chapter 20 on *Mergers* (Issued for application in 2019);
- Amendments to the Modified Cash Standard (Issued 31 March 2022); and
- Amendments to the Modified Cash Standard (Issued 31 March 2025).

Objective

- .01 The objective of this Chapter is to prescribe, for lessees and lessors, the appropriate accounting policies and disclosures to apply in relation to leases.

Scope

- .02 **A department that prepares and presents financial statements under the modified cash basis of accounting shall apply this Chapter in distinguishing between operating and finance leases for purposes of classifying recognised lease expenditure in the primary financial information, and for providing additional disclosures about leases in the secondary financial information.**
- .03 This Chapter does not apply to the initial recording and initial measurement of assets and liabilities in a lease agreement acquired in a transfer of functions (see Chapter 19 on *Transfer of Functions*) or a merger (see Chapter 20 on *Mergers*).
- .04 This Standard applies to agreements that transfer the right to use assets even though substantial services by the lessor may be called for in connection with the operation or maintenance of such assets. This Chapter does not apply to agreements that are contracts for services that do not transfer the right to use assets from one contracting party to another. Departments may enter into complex arrangements for the delivery of services, which may or may not include leases of assets. These arrangements are discussed in paragraphs .19 to .21.
- .05 Legislation may prohibit the entering into certain types of lease arrangements. If the department has contravened these legislative requirements, the department is still required to apply the requirements of this Chapter to reflect the financial consequences of the transactions. However, this will not legitimise the contravention of legislation.

Definitions

- .06 ***The following terms are used in this Chapter with the meanings specified:***

The commencement of the lease term is the date from which the lessee is entitled to exercise its right to use the leased asset. It is the date of initial recording of the lease.

Economic life is either:

- (a) the period over which an asset is expected to yield economic benefits or service potential to one or more users; or
- (b) the number of production or similar units expected to be obtained from the asset by one or more users.

Contingent rent is that portion of the lease payments that is not fixed in amount but is based on the future amount of a factor that changes other than with the passage of time (e.g. percentage of future sales, amount of future use, future price indices, and future market rates of interest).

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

A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred.

Gross investment in the lease is the aggregate of:

- (a) the minimum lease payments receivable by a lessor under a finance lease; and
- (b) any unguaranteed residual value accruing to the lessor.

Guaranteed residual value is the aggregate of:

- (a) for a lessee, that part of the residual value that is guaranteed by the lessee or by a party related to the lessee (the amount of the guarantee being the maximum amount that could, in any event, become payable); and
- (b) for a lessor, that part of the residual value that is guaranteed by the lessee or by a third party unrelated to the lessor that is financially capable of discharging the obligations under the guarantee.

The **inception of the lease** is the earlier of the date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease. As at this date:

- (a) a lease is classified as either an operating or a finance lease; and
- (b) in the case of a finance lease, the amounts to be recorded at the commencement of the lease are determined.

Initial direct costs incremental costs that are directly attributable to negotiating and arranging a lease, except for such costs incurred by manufacturer or trader lessors.

The **interest rate implicit in the lease** is the discount rate that, at the inception of the lease, causes the aggregate present value of:

- (a) the minimum lease payments; and
- (b) the unguaranteed residual value

to be equal to the sum of (i) the fair value of the leased asset; and (ii) any initial direct costs of the lessor.

A **lease** is an agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time.

The **lease term** is the non-cancellable period for which the lessee has contracted to lease the asset together with any further terms for which the lessee has the option to continue to lease the asset, with or without further payment, when at the inception of the lease it is reasonably certain that the lessee will exercise the option.

Minimum lease payments are the payments over the lease term that the lessee is or can be required to make, excluding contingent rent, costs for services and, where appropriate, taxes to be paid by and reimbursed to the lessor, together with:

- (a) for a lessee, any amounts guaranteed by the lessee or by a party related to the lessee; or
- (b) for a lessor, any residual value guaranteed to the lessor by:
 - (i) the lessee;
 - (ii) a party related to the lessee; or
 - (iii) a third party unrelated to the lessor that is financially capable of discharging the obligations under the guarantee.

However, if the lessee has an option to purchase the asset at a price that is expected to be sufficiently lower than fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception of the lease, that the option will be exercised, the minimum lease payments comprise the minimum payments payable over the lease term to the expected date of exercise of this purchase option and the payment required to exercise it.

Net investment in the lease is the gross investment in the lease discounted at the interest rate implicit in the lease.

A **non-cancellable lease** is a lease that is cancellable only:

- (a) upon the occurrence of some remote contingency;
- (b) with the permission of the lessor;
- (c) if the lessee enters into a new lease for the same or an equivalent asset with the same lessor;
or
- (d) upon payment by the lessee of an additional amount that, at inception, continuation of the lease is reasonably certain.

An **operating lease** is a lease other than a finance lease.

Unearned finance revenue is the difference between:

- (a) the gross investment in the lease; and
- (b) the net investment in the lease.

Unguaranteed residual value is that portion of the residual value of the leased asset, the realisation of which by the lessor is not assured or is guaranteed solely by a party related to the lessor.

Useful life (of a leased asset) is the estimated remaining period, from the commencement of the lease term, without limitation by the lease term, over which the economic benefits or service potential embodied in the asset are expected to be consumed by the department.

Terms defined in other chapters are used in this Chapter with the same meaning as in those other chapters.

Changes in lease payments between the inception of the lease and the commencement of the lease term

- .07 A lease agreement or commitment may include a provision to adjust the lease payment for changes in the construction or acquisition cost of the leased property or for changes in some other measure of cost or value, such as general price levels, or in the lessor's cost of financing the lease, during the period between the inception of the lease and the commencement of the lease term. If so, the effect of any such changes shall be deemed to have taken place at the inception of the lease for the purposes of this Chapter.

Hire purchase contracts

- .08 The definition of a lease includes contracts for the hire of an asset which contain a provision giving the hirer an option to acquire title to the asset upon the fulfilment of agreed conditions. These contracts are sometimes known as hire purchase contracts.

Classification of leases

- .09 The classification of leases adopted in this Chapter is based on the extent to which risks and rewards incidental to ownership of a leased asset lie with the lessor or the lessee. Risks include the possibilities of losses from idle capacity, technological obsolescence or changes in value due to changing economic conditions. Rewards may be represented by the expectation of service potential or profitable operation over the asset's economic life and of gain from appreciation in value or realisation of a residual value.
- .10 **A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.**
- .11 Because the transaction between a lessor and a lessee is based on a lease agreement between them, it is appropriate to use consistent definitions. The application of these definitions in differing circumstances of the lessor and the lessee may result in the same lease being classified differently by them. For example, this may be the case if the lessor benefits from a residual value guarantee provided by a party unrelated to the lessee.
- .12 Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract. Although the following are examples of situations which would normally lead to a lease being classified as a finance lease, a lease does not need to meet all these criteria in order to be classified as a finance lease:
- (a) the lease transfers ownership of the asset to the lessee by the end of the lease term;
 - (b) the lessee has the option to purchase the asset at a price which is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception of the lease, that the option will be exercised;
 - (c) the lease term is for the major part of the economic life of the asset even if title is not transferred;
 - (d) at the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset;
 - (e) the leased assets are of a such a specialised nature that only the lessee can use them without major modifications; and
 - (f) the leased assets cannot easily be replaced by another asset.
- .13 Other indicators of situations that individually or in combination could also lead to a lease being classified as a finance lease are:
- (a) if the lessee can cancel the lease, the lessor's losses associated with the cancellation are borne by the lessee;
 - (b) gains or losses from the fluctuation in the fair value of the residual value accrue to the lessee (for example, in the form of a rent rebate equalling most of the sales proceeds at the end of the lease); and
 - (c) the lessee has the ability to continue the lease for a secondary period at a rent that is substantially lower than market rent.
- .14 The examples and indicators in paragraphs .12 and .13 are not always conclusive. If it is clear from other features that the lease does not transfer substantially all risks and rewards incidental to ownership, the lease is classified as an operating lease. For example, this may be the case if ownership of the asset transfers at the end of the lease for a variable payment equal to its then fair value, or if there are contingent rents, as a result of which the lessee does not have substantially all such risks and rewards.

- .15 Lease classification is made at the inception of the lease. If at any time the lessee and the lessor agree to change the provisions of the lease, other than by renewing the lease, in a manner that would have resulted in a different classification of the lease under the criteria in paragraphs .09 to .14 if the changed terms had been in effect at the inception of the lease, the revised agreement is considered as a new agreement over its term. However, changes in estimates (for example, changes in estimates of the economic life or the residual value of the leased property), or changes in circumstances (for example, default by the lessee), do not give rise to a new classification of a lease for accounting purposes.
- .16 When a lease includes both land and buildings elements, a department assesses the classification of each element separately in accordance with paragraphs .09 to .15 to. In determining whether the land element is an operating or a finance lease, an important consideration is that land normally has an indefinite economic life.
- .17 Whenever necessary in order to classify and account for a lease of land and buildings, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and buildings elements in proportion to the relative fair values of the leasehold interests in the land element and buildings element of the lease at the inception of the lease. If the lease payments cannot be allocated reliably between these two elements, the entire lease is classified as a finance lease, unless it is clear that both elements are operating leases, in which case the entire lease is classified as an operating lease.
- .18 For a lease of land and buildings in which the amount that would initially be recorded for the land element, in accordance with paragraph .26, is immaterial, the land and buildings may be treated as a single unit for the purpose of lease classification and classified as a finance lease or operating lease in accordance with paragraphs .09 to .15. In such a case, the economic life of the buildings is regarded as the economic life of the entire leased asset.

Leases and other contracts

- .19 A contract may consist solely of an agreement to lease an asset. However, a lease may also be one element in a broader set of agreements with private sector entities to construct, own, operate and/or transfer assets. Departments often enter into such agreements, particularly in relation to long-lived physical assets and infrastructure assets. Other agreements may involve a department using infrastructure from the private sector.
- .20 Where an arrangement contains an identifiable operating lease or finance lease as defined in this Chapter, the provisions of this Chapter should be applied in accounting for the lease component of the arrangement.
- .21 Departments may also enter into a variety of agreements for the provision of goods and/or services, which necessarily involve the use of dedicated assets. In some of these agreements, it may not be clear whether or not a lease, as defined by this Chapter, has arisen. In these cases, professional judgment is exercised, and if a lease has arisen, this Chapter is applied; and if a lease has not arisen, departments account for those agreements by applying the provisions of other relevant chapters.

Operating lease incentives

- .22 All incentives for the agreement of a new or renewed operating lease shall be regarded as an integral part of the net consideration agreed for the use of the leased asset, irrespective of the incentive's nature or form or the timing of payments.

Leases in the financial statements of lessees

Primary Financial Information

Initial recognition and measurement – all leases

- .23 **Lease payments made by a department during the reporting period shall be recognised and measured in accordance with Chapter 8 on *Expenditure*.**
- .24 Operating lease payments shall be treated as current expenditure, whereas finance lease payments shall be treated as capital expenditure. Departments shall disclose primary financial information on lease payments in accordance with Chapter 8, read with the disclosure requirements of this Chapter.

Disclosures

- .25 **A lessee department shall disclose the amount of operating lease and finance lease expenditure as current and capital expenditure respectively in the notes to the statement of financial performance.**

Secondary Financial Information

Recording and measurement – assets acquired under a finance lease

- .26 **At the commencement of the lease term, a department that is a lessee shall measure all finance lease assets and associated lease liabilities at:**
 - (a) the fair value of the leased asset or, if lower,
 - (b) the sum present value of the minimum lease payments**each determined at the inception of the lease.**

The discount rate to be used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease, if this is practicable to determine; if not, a reasonable proxy rate such as the prime lending rate at inception of the lease can be used. Any initial direct costs of the lessee are added to the amount recorded as an asset.

- .27 **For financial lease agreements entered into prior to 1 April 2024, the department records the capital assets retrospectively in the notes to the financial statements at the present value of the minimum lease payments (determined at the inception of the lease).**
- .28 Transactions and other events are accounted for and presented in accordance with their substance and financial reality and not merely with legal form. Although the legal form of a lease agreement is that the lessee may acquire no legal title to the leased asset, in the case of finance leases the substance and financial reality- are that the lessee acquires the economic benefits or service potential of the use of the leased asset for the major part of its economic life in return for entering into an obligation to pay for that right an amount approximating, at the inception of the lease, the fair value of the asset and the related finance charge.
- .29 If such lease transactions are not reflected in the lessee's financial statements, the assets and liabilities of a department are understated, thereby distorting financial ratios. Therefore, it is appropriate for a finance lease to be recorded in the lessee's financial statements both as an asset and as an obligation to pay future lease payments. At the commencement of the lease term, the asset and the liability for the future lease payments are recorded in the financial statements at the same amounts except for any initial direct costs of the lessee that are added to the amount recorded as an asset.

- .30 Initial direct costs are often incurred in connection with specific leasing activities, such as negotiating and securing lease arrangements. The costs identified as directly attributable to activities performed by the lessee for a finance lease are added to the amount recorded as an asset.
- .31 Minimum lease payments shall be apportioned between the finance charge and the reduction of the outstanding liability. The finance charge shall be allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent rents shall be charged as expenses in the periods in which they are paid.
- .32 The interest rate implicit in the lease is the lessor's internal rate of return from the lease considering the normal cash price of the leased asset, rentals and the amount the lessor expects to recover from the residual value. Where interest rate implicit in the lease is not stipulated in the agreement, and the lessor does not volunteer the information to the lessee, the lessee will need to calculate an estimate of the rate from the information available in the lease agreement, failing which a reasonable proxy rate should be used.
- .33 A lessee can normally derive a reasonable estimate of the interest rate implicit in the lease when it is possible to estimate the fair value of the leased asset(s) and its anticipate residual value at the end of the lease term.
- .34 The value of the assets calculated in accordance with paragraph .26 above will be used for disclosure purposes as required in paragraph .35 and .36 below.

Disclosures

- .35 **A lessee department shall make the following disclosures for finance leases:**
 - (a) for each class of asset, the value at the reporting date;**
 - (b) a reconciliation between the total of future minimum lease payments at the reporting date, and their present value. In addition, a department shall disclose the total of future minimum lease payments at the reporting date, and their present value, for each of the following periods;**
 - (i) not later than one year;**
 - (ii) later than one year and not later than five years; and**
 - (iii) later than five years;**
 - (c) contingent rents recognised as an expense in the period;**
 - (d) the total of future minimum sublease payments expected to be received under non-cancellable subleases at the reporting date;**
 - (e) a general description of the lessee's material leasing arrangements including, but not limited to, the following:**
 - (i) the basis on which contingent rent payable is determined;**
 - (ii) the existence and terms of renewal or purchase options and escalation clauses; and**
 - (iii) restrictions imposed by lease arrangements, such as those concerning return of surplus, return of capital contributions, dividends or similar distributions, additional debt and further leasing.**
- .36 **A lessee department shall make the following disclosures for operating leases:**
 - (a) the total of future minimum lease payments under non-cancellable operating leases for each of the following periods:**

- (i) not later than one year;
- (ii) later than one year and not later than five years; and
- (iii) later than five years;
- (b) the total of future minimum sublease payments expected to be received under non-cancellable subleases at the reporting date;
- (c) lease and sublease payments recognised in the statement of financial performance in the period, with separate amounts for minimum lease payments, contingent rents, and sublease payments; and
- (d) a general description of the lessee's significant leasing arrangements including, but not limited to, the following:
 - (i) the basis on which contingent rent payable is determined;
 - (ii) the existence and terms of renewal or purchase options and escalation clauses; and
 - (iii) restrictions imposed by lease arrangements, such as those concerning return of surplus, return of capital contributions, dividends or similar distributions, additional debt, and further leasing.

.37 Where a department has numerous lease agreements the department can group the lease disclosure narrative according to the sub-categories of capital assets leased and specify the range of terms applicable to such lease agreements.

Leases in the financial statements of lessors

.38 This Chapter describes the treatment of finance revenue received under finance leases.

.39 Departments may enter into finance leases as a lessor under a variety of circumstances. Some departments may trade assets on a regular basis. For example, government may create a special purpose department that is responsible for the central procurement of assets and supplies for all other departments. Centralisation of the purchasing function may provide greater opportunity to obtain trade discounts or favourable conditions. A central purchasing department for example public works may purchase items on behalf of other departments, with all transactions being conducted in the name of other departments, or a central purchasing department may purchase items in its own name and its functions may include:

- (a) procuring assets and supplies;
- (b) transferring assets by way of sale or finance lease; and/or
- (c) managing a portfolio of assets, such as a motor vehicle fleet or buildings, for use by other departments and making those available for short or long-term lease, or purchase.

Primary financial information

Initial recognition and measurement – all leases

.40 Lease payments received during the reporting period shall be recognised as revenue in accordance with Chapter 7 on *Revenue*.

Disclosures

.41 A lessor department shall disclose the amount of the lease payments received during the

reporting period as part of departmental revenue in the notes to the statement of financial performance.

Secondary financial information

Recording and measurement – all leases

- .42 **Where a department leases out an asset, under an operating lease, the underlying asset shall continue to be accounted for in accordance with Chapter 11 on *Capital Assets*. If the lease is a finance lease the asset shall be removed from the asset register on commencement of the lease.**
- .43 Under a finance lease, substantially all the risks and rewards incidental to legal ownership are transferred by the lessor, and thus the lease payment receivable is treated by the lessor as repayment of principal and finance revenue to reimburse and reward the lessor for its investment and services.
- .44 Initial direct costs are often incurred by lessors and include amounts such as commissions, legal fees and internal costs that are incremental and directly attributable to negotiating and arranging a lease. They exclude general overheads such as those incurred by a sales and marketing team. For finance leases other than those involving manufacturer or trade lessors, initial direct costs are included in the initial measurement of the finance lease receivable for recording purposes. The interest rate implicit in the lease is defined in such a way that the initial direct costs are included automatically in the finance lease receivable; there is no need to add them separately. Costs incurred by manufacturer or trader lessors in connection with negotiating and arranging a lease are excluded from the definition of initial direct costs. As a result, they are excluded from the net investment in the lease.

Disclosures

- .45 **A lessor department shall make the following disclosures for all finance leases:**
- (a) **reconciliation between the gross investment in the lease at the reporting date, and the present value of minimum lease payments receivable at the reporting date. In addition, a department shall disclose the gross investment in the lease and the present value of minimum lease payments receivable at the reporting date, for each of the following periods:**
 - (i) **not later than one year;**
 - (ii) **later than one year and not later than five years; and**
 - (iii) **later than five years;**
 - (b) **unearned finance revenue;**
 - (c) **the unguaranteed residual values accruing to the benefit of the lessor;**
 - (d) **the accumulated allowance for uncollectible minimum lease payments receivable;**
 - (e) **contingent rents recognised as revenue in the period;**
 - (f) **the amount of lease revenue that is expected on dates specified in (a) above should also be disclosed for the comparative period;**
 - (g) **a general description of the lessor's material leasing arrangement, including a description of any renewal options and escalation clauses; and**
 - (h) **the amount of rental earned on sub-leased assets.**
- .46 **A lessor department shall make the following disclosures for operating leases:**
- (a) **the future minimum lease payments under non-cancellable operating leases in the aggregate and for each of the following periods:**

- (i) not later than one year;
 - (ii) later than one year and not later than five years; and
 - (iii) later than five years;
- (b) total contingent rents recognised as revenue in the period; and
- (c) a general description of the lessor's leasing arrangements.

.47 Where a department has numerous lease agreements of capital assets leased out, the department can group the lease disclosure narrative according to the sub-categories of capital assets leased out and specify the range of terms applicable to such lease agreements.

Sale and leaseback transactions

.48 A sale and leaseback transaction involves the sale of an asset and the leasing back of the same asset. The lease payment and the sale price are usually interdependent because they are negotiated as a package. The accounting treatment of a sale and leaseback transaction depends on the type of lease involved.

Lessees

- .49 For the lessee department, all sales proceeds arising out of sale and leaseback transactions shall be recognised in accordance with Chapter 7.
- .50 Capital assets of a lessee department that become the subject of a sale and leaseback transaction shall be removed from the asset register on the date of sale. The lessee department will thereafter account for the capital asset in accordance with paragraph .26 above.
- .51 Where a lessee department is given a reduction in the lease payments instead of actual cash from the sale of the asset(s), it should disclose this fact in the notes to the financial statements.

Lessors

- .52 Where a department acquires an asset and leases that same asset back to another party in a sale and leaseback arrangement, the lessor department records and discloses the acquisition of the capital asset in accordance with Chapter 11, and treats the subsequent lease arrangement in accordance with paragraphs .40 to .47 of this Chapter. The lessor department removes the asset from its asset register at the commencement of the lease term if the leaseback is a finance lease.
- .53 Disclosure requirements for lessees and lessors apply equally to sale and leaseback transactions. The required description of the material leasing arrangements leads to disclosure of unique or unusual provisions of the agreement or terms of the sale and leaseback transactions.

Comparison with GRAP 13 on Leases

The main differences between this Chapter and GRAP 13 are as follows:

- GRAP 13 excludes from its scope the measurement of property held by lessees that are accounted for as investment property (GRAP 16) and biological assets (GRAP 27). This scope exclusion has not been included in this Chapter as such assets are not necessarily recognised at fair value on initial recognition.
- GRAP 13 does not apply to lease agreements to explore for or use natural resources such as oil, gas, timber, metals, and other mineral rights and licensing agreements for such items as motion picture films, video recordings, plays, manuscripts, patents, and copyrights. A similar scope exclusion has not been added to this Chapter as it is not relevant to departments and if exists are accounted for when the revenue is received or expenditure incurred.
- The Chapter does not include a discussion on the incremental borrowing rate of interest because of its relevance in application to departments.
- GRAP 13 does not require separate measurements of land and buildings when the lessee's interest in both land and buildings is classified as an investment property and the fair value model is adopted. An equivalent paragraph has not been included in the Chapter because the fair value model for subsequent measurement is not applied to land and buildings classified as investment property.
- Similarly, the Chapter does not include any allowance for a lessee to classify and account for a property interest held under an operating lease as a finance lease. The equivalent paragraphs from GRAP 16 are not included in the MCS and, in addition, any investment property is not subsequently measured using the fair value model.
- Guidance from GRAP 13 on the presentation of lease liabilities in the statement of financial position has not been included in the Chapter because these liabilities are not recognised by a department.
- Guidance from GRAP 13 on the depreciation expense and the depreciable amount with regards to a finance lease asset has not been included in this Chapter because (a) such assets are not recognised by departments and (b) capital assets are not presently subject to depreciation. Similarly, the guidance on impairment of assets has been excluded from the Chapter as it is not a requirement of the MCS.
- GRAP 13 requires entities to recognise lease payments under an operating lease as an expense on a straight-line basis over the lease term. All lease payments (and receipts) are recognised on a cash basis.
- The guidance from GRAP 13 on gains and losses recognised by manufacturers or trad lessors has not been included in the Chapter as it is not relevant to departments.
- Guidance on the treatment of any excess of sales proceeds over the carrying amount of an asset in a sale and leaseback transaction in GRAP 13 has not been included in the Chapter because the proceeds are recognised on a cash basis, a gain or loss is not determined on transaction date for recognition in the financial statements.

Chapter 14: Provisions And Contingents

Chapter content

Objective	155
Scope	155
Definitions.....	155
Binding arrangements	156
Provisions.....	156
Relationship between provisions and contingent liabilities	157
Criteria for recording provisions	157
Measurement of provisions.....	159
Disclosure requirements	162
Contingent liabilities	162
Disclosure criteria.....	162
Disclosure requirements	163
Contingent assets	163
Disclosure criteria.....	163
Disclosure requirements	163
Commitments	164
Disclosure criteria.....	164
Disclosure requirements	164
General.....	164
Comparison with GRAP 19 on Provisions, Contingent Liabilities and Contingent Assets	165

This Chapter formed part of the original Standard published in 2013 and has since then been considered for improvement as part of the amendments process conducted by the National Treasury's Office of the Accountant-General, more specifically:

- Amendments to the Modified Cash Standard (Issued 31 March 2022); and
- Amendments to the Modified Cash Standard (Issued 31 March 2025).

Objective

- .01 The objective of this Chapter is to define provisions, contingent liabilities and contingent assets. It identifies the circumstances in which provisions should be recorded, how they should be measured and the disclosures that should be made about them. This Chapter also requires that certain information be disclosed about contingent liabilities and contingent assets in the secondary financial information notes to the financial statements to enable users to understand their nature, timing and amount.

Scope

- .02 A department that prepares and presents financial statements under the modified cash basis of accounting shall apply this Chapter in accounting for provisions, contingent liabilities and contingent assets in its secondary financial information, including:
- (a) those resulting from executory contracts;
 - (b) certain employee benefits; and
 - (c) guarantees issued by government to employees and other departments or entities.
- .03 This Chapter does not apply to the recording of separate obligations (legal or otherwise) in relation to the dismantling, removal or restoration of assets and/or any sites related thereto.
- .04 This Chapter defines provisions as liabilities of uncertain timing or amount. The term “provision” may also be used in the context of items such as doubtful debts, which are adjustments to the carrying amounts of assets (debtors) and are not addressed in this Chapter.

Definitions

- .05 *The following terms are used in this Chapter with the meanings specified:*

A **binding arrangement** is an arrangement that confers enforceable rights and obligations on the parties to the arrangement as if it were in the form of a contract. It includes rights from contracts or other legal rights.

A **constructive obligation** is an obligation that derives from a department’s actions where:

- (a) by an established pattern of past practice, published policies or a sufficiently specific current statement, the department has indicated to other parties that it will accept certain responsibilities; and
- (b) as a result, the department has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

A **commitment** arises when a department has irrevocably bound itself to future transactions of a capital nature that will result in an outflow of cash.

A **contingent asset** is a possible asset that arises from past events, and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the department.

A **contingent liability** is:

- (a) a possible obligation that arises from past events, and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the department; or
- (b) a present obligation that arises from past events but is not recognised because:
 - (i) it is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; or
 - (ii) the amount of the obligation cannot be measured with sufficient reliability.

Executory contracts are contracts under which neither party has performed any of its obligations or both parties have partially performed their obligations to an equal extent.

A **legal obligation** is an obligation that derives from:

- (a) a contract (through its explicit or implicit terms);
- (b) legislation; or
- (c) other operation of law.

Liabilities are present obligations of the department arising from past events, the settlement of which is expected to result in an outflow from the department of resources embodying economic benefits or service potential.

Management comprises those persons responsible for planning, directing and controlling the activities of the department, including those charged with the governance of the department in accordance with legislation, in instances where they are required to perform such functions.

An **obligating event** is an event that creates a legal or constructive obligation that results in a department having no realistic alternative to settling that obligation.

A **provision** is a liability of uncertain timing or amount.

Terms defined in other chapters are used in this Chapter with the same meaning as in those other chapters.

Binding arrangements

.06 Binding arrangements can be evidenced in several ways:

- (a) a contract concluded between the parties;
- (b) legislation, supporting regulations or similar means including, but not limited to, laws, regulation, policies, decisions concluded by authorities such as cabinet, executive committees, boards, municipal councils and ministerial orders; or
- (c) through the operation of law, including common law.

A binding arrangement is often, but not always, in writing, in the form of a contract or documented discussions between the parties.

Provisions

.07 Provisions can be distinguished from other liabilities such as payables and accruals because there is

uncertainty about the timing or amount of the future expenditure required in settlement. By contrast:

- (a) payables are liabilities to pay for goods or services that have been received or supplied and have been invoiced or formally agreed with the supplier;
- (b) accruals are liabilities to pay for goods or services that have been received or supplied but have not been paid, invoiced or formally agreed with the supplier, including amounts due to employees (for example, amounts relating to accrued vacation pay). Although it is sometimes necessary to estimate the amount or timing of accruals, the uncertainty is generally much less than for provisions.

Relationship between provisions and contingent liabilities

- .08 In a general sense, all provisions are contingent because they are uncertain in timing or amount. However, within this Chapter, the term “contingent” is used for liabilities and assets that are separately disclosed because their existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the department.
- .09 This Chapter distinguishes between disclosures of:
 - (a) provisions — which are recorded as liabilities (assuming that a reliable estimate can be made) because they are present obligations and it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligations; and
 - (b) contingent liabilities — which are not recognised or recorded as liabilities because they are:
 - (i) possible obligations, as it has yet to be confirmed whether the department has a present obligation that could lead to an outflow of resources embodying economic benefits or service potential; or
 - (ii) present obligations that do not meet the recognition criteria in this Chapter (because either it is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation, or a sufficiently reliable estimate of the amount of the obligation cannot be made).
- .10 Departments might issue guarantees on behalf of employees to secure motor vehicle finance or even housing finance. Where a department has issued a guarantee on behalf of an employee (for securing finance), the department shall, for the purpose of this Chapter, classify all such guarantees as contingent liabilities.

Criteria for recording provisions

- .11 **For the purposes of disclosure only, a provision shall be recorded when:**
 - (a) a department has a present obligation (legal or constructive) as a result of a past event;
 - (b) it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
 - (c) a reliable estimate can be made of the amount of the obligation.

If these conditions are not met, no provision shall be recorded or disclosed.
- .12 **If a department has a contract that is onerous, the present obligation (net of recoveries) under the contract shall be recorded and measured as a provision for disclosure purposes.**

Present obligation

- .13 In rare cases, it may not be clear whether there is a present obligation. In these cases, a past event is deemed to give rise to a present obligation if, taking account of all available evidence, it is more likely than not that a present obligation exists at the reporting date.
- .14 In almost all cases, it will be clear whether a past event has given rise to a present obligation. In other cases, for example in a lawsuit, it may be disputed either whether certain events have occurred or whether those events result in a present obligation. In such cases, a department determines whether a present obligation exists at the reporting date by taking account of all available evidence including, for example, the opinion of experts. The evidence considered includes any additional evidence provided by events after the reporting date. On the basis of such evidence:
 - (a) where it is more likely than not that a present obligation exists at the reporting date, the department discloses a provision (if the disclosure criteria are met); and
 - (b) where it is more likely that no present obligation exists at the reporting date, the department discloses a contingent liability, unless the possibility of an outflow of resources embodying economic benefits or service potential is remote (see paragraph .50).

Past event

- .15 A past event that leads to a present obligation is called an obligating event. For an event to be an obligating event, it is necessary that the department has no realistic alternative to settling the obligation created by the event. This is the case only:
 - (a) where the settlement of the obligation can be enforced by law; or
 - (b) in the case of a constructive obligation, where the event (which may be an action of the department) creates valid expectations in other parties that the department will discharge the obligation.
- .16 Financial statements deal with balances and transactions as at the end of its reporting period and not possible future balances and transactions. Therefore, no provision is recorded for costs that need to be incurred to continue a department's ongoing activities in the future. The only liabilities disclosed are those that exist at the reporting date.
- .17 It is only those obligations arising from past events existing independently of a department's future actions (that is, the future conduct of its activities) that are recorded as provisions. An example of such obligations is penalties for clean-up costs for unlawful environmental damage imposed by legislation on a department. These obligations would lead to an outflow of resources embodying economic benefits or service in settlement regardless of the future actions of the department. In contrast, because of legal requirements, pressure from constituents or a desire to demonstrate community leadership, a department may intend or need to carry out expenditure to operate in a particular way in the future. An example would be where a department decides to fit emission controls on certain of its vehicles. Because the department can avoid future expenditure by its future actions, for example, by changing its method of operation, it has no present obligation for that future expenditure and no provision is disclosed.
- .18 An obligation always involves another party to whom the obligation is owed. It is not necessary, however, to know the identity of the party to whom the obligation is owed — indeed the obligation may be to the public at large. Because an obligation always involves a commitment to another party, it follows that a decision by a department's management does not give rise to a constructive obligation at the reporting date unless the decision has been communicated before the reporting date to those affected by it in a sufficiently specific manner to raise a valid expectation in them that the department will discharge its responsibilities.

- .19 An event that does not give rise to an obligation immediately may do so at a later date, because of changes in the law or because an act (for example, a sufficiently specific public statement) by the department gives rise to a constructive obligation. For example, when environmental damage is caused by a department there may be no obligation to remedy the consequences. However, the causing of the damage will become an obligating event when a new law requires the existing damage to be rectified or when the department publicly accepts responsibility for rectification in a way that creates a constructive obligation.
- .20 Where details of a proposed new law have yet to be finalised, an obligation arises only when the legislation is virtually certain to be enacted as drafted. For the purpose of this Chapter, such an obligation is treated as a legal obligation. Differences in circumstances surrounding enactment often make it impossible to specify a single event that would make the enactment of a law virtually certain. In many cases it will be impossible to be virtually certain of the enactment of the law until it is enacted.

Probable outflow of resources embodying economic benefits or service potential

- .21 For a liability to qualify for disclosure there must be not only a present obligation but also the probability of an outflow of resources embodying economic benefits or service potential to settle that obligation. For the purpose of this Chapter, an outflow of resources or other event is regarded as probable if the event is more likely than not to occur, that is, the probability that the event will occur is greater than the probability that it will not. Where it is not probable that a present obligation exists, a department discloses a contingent liability, unless the possibility of an outflow of resources embodying economic benefits or service potential is remote (see paragraph .50).
- .22 Where there are a number of similar obligations (for example, government's obligation to compensate individuals who have received contaminated blood from a government-owned hospital) the probability that an outflow will be required in settlement is determined by considering the class of obligations as a whole. Although the likelihood of outflow for any one item may be small, it may well be probable that some outflow of resources will be needed to settle the class of obligations as a whole. If that is the case, a provision is disclosed (if the other criteria are met).

Reliable estimate of the obligation

- .23 The use of estimates is an essential part of the preparation of financial statements and does not undermine their reliability. This is especially true in the case of provisions, which by their nature are more uncertain than most other assets or liabilities. Except in extremely rare cases, a department will be able to determine a range of possible outcomes and can therefore make an estimate of the obligation that is sufficiently reliable to use in disclosing a provision.
- .24 In the extremely rare case where no reliable estimate can be made, a liability exists that is disclosed as a contingent liability (see paragraph .50).

Measurement of provisions

Best estimate

- .25 **The amount disclosed as a provision shall be the best estimate of the funds required to settle the present obligation at the reporting date. The time value of money is ignored where the obligation will be settled soon after the reporting date.**
- .26 The best estimate of the funds required to settle the present obligation is the amount that a department would rationally pay to settle the obligation at the reporting date or to transfer it to a third party at that time. It will often be impossible or prohibitively expensive to settle or transfer an obligation at the

reporting date. However, the estimate of the amount that a department would rationally pay to settle or transfer the obligation gives the best estimate of the expenditure required to settle the present obligation at the reporting date.

- .27 The estimates of outcome and financial effect are determined by the judgement of the management of the department, supplemented by experience of similar transactions and, in some cases, reports from independent experts. The evidence considered includes any additional evidence provided by events after the reporting date.
- .28 Uncertainties surrounding the amount to be disclosed as a provision are dealt with by various means according to the circumstances. Where the provision being measured involves a large population of items, the obligation is estimated by weighting all possible outcomes by their associated probabilities. The name for this statistical method of estimation is "expected value". The provision will therefore be different depending on whether the probability of a loss of a given amount is, for example, 60% or 90%. Where there is a continuous range of possible outcomes, and each point in that range is as likely as any other, the mid-point of the range is used.
- .29 Where a single obligation is being measured, the individual most likely outcome may be the best estimate of the liability. However, even in such a case, the department considers other possible outcomes. Where other possible outcomes are either mostly higher or mostly lower than the most likely outcome, the best estimate will be a higher or lower amount. For example, if government has to pay for repairs in respect of an accident involving a government helicopter and a private property, the individual most likely outcome may be for the repair to succeed at the first attempt at a cost of R100 000, but a provision for a larger amount is made if there is a significant chance that further attempts will be necessary to return the property to its original condition.

Risks and uncertainties

- .30 The risks and uncertainties that inevitably surround many events and circumstances shall be considered in reaching the best estimate of a provision.
- .31 Risk describes variability of outcome. A risk adjustment may increase the amount at which a liability is measured. Caution is needed in making judgements under conditions of uncertainty, so that the amounts disclosed are not understated. However, uncertainty does not justify the creation of excessive provisions. For example, if the projected costs of a particularly adverse outcome are estimated on a prudent basis, that outcome is not then deliberately treated as more probable than is realistically the case. Care is needed to avoid duplicating adjustments for risk and uncertainty with consequent overstatement of a provision.
- .32 Disclosure of the uncertainties surrounding the amount of the expenditure is made under paragraph .46(b).

Future events

- .33 **Future events that may affect the amount required to settle an obligation shall be reflected in the amount of a provision where there is sufficient objective evidence that they will occur.**
- .34 Expected future events may be particularly important in measuring provisions. For example, where government believes that the cost of cleaning up the tar, ash and other pollutants associated with a gasworks' site at the end of its life will be reduced by future changes in technology. In this case, the amount disclosed reflects the cost that technically qualified, objective observers reasonably expect to be incurred, taking account of all available evidence as to the technology that will be available at the time of the clean-up. Thus, it is appropriate to include, for example, expected cost reductions associated

with increased experience in applying existing technology or the expected cost of applying existing technology to a larger or more complex clean-up operation than has previously been carried out. However, a department does not anticipate the development of a completely new technology for cleaning up unless it is supported by sufficient objective evidence.

- .35 The effect of possible new legislation that may affect the amount of an existing obligation of a department is taken into consideration in measuring that obligation when sufficient objective evidence exists that the legislation is virtually certain to be enacted. The variety of circumstances that arise in practice makes it impossible to specify a single event that will provide sufficient, objective evidence in every case. Evidence is required both of what legislation will demand and of whether it is virtually certain to be enacted and implemented in due course. In many cases, sufficient objective evidence will not exist until the new legislation is enacted.

Reimbursements

- .36 **Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement shall be disclosed when, and only when, it is virtually certain that reimbursement will be received if the department settles the obligation. The reimbursement shall be included in the estimate of the provision. The reimbursement shall not exceed the amount of the provision.**
- .37 **In the statement of financial performance, the expense relating to a settlement of the provision may be presented net of the reimbursement received.**
- .38 Sometimes, a department is able to look to another party to pay part or all of the expenditure required to settle a provision, for example, through insurance contracts. The other party may either reimburse amounts paid by the department or pay the amounts directly. For example, a department may have legal liability to an individual as a result of motor vehicle accident involving an employee in an official vehicle. However, the department may be able to recover some of the expenditure from the insurer.
- .39 In most cases, the department will remain liable for the whole of the amount in question, so that the department would have to settle the full amount if the third party failed to pay for any reason. In this situation, a provision is disclosed for the full amount of the liability, and a reimbursement is disclosed when it is virtually certain that reimbursement will be received if the department settles the liability.
- .40 In some cases, the department will not be liable for the costs in question if the third party fails to pay. In such a case, the department has no liability for those costs and they are not included in the provision.
- .41 As noted in paragraph .51, an obligation for which a department is jointly and severally liable is a contingent liability to the extent that it is expected that the obligation will be settled by the other parties.

Changes in provisions

- .42 **Provisions shall be reviewed at each reporting date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation, the provision shall be reversed.**

Use of provisions

- .43 **A provision shall be used only for expenditures for which the provision was originally disclosed.**
- .44 A reduction of the provision disclosed is only made for expenditures that relate to the original provision and only when the expenditures are recognised in accordance with Chapter 8 on *Expenditure*.

Disclosure requirements

- .45 For each class of provision (other than those relating to employee benefits), a department shall disclose:**
- (a) the carrying amount at the beginning and end of the period;**
 - (b) additional provisions made in the period, including increases to existing provisions;**
 - (c) reductions in the carrying amounts of provisions that result from payments made during the reporting period;**
 - (d) reductions in the carrying amounts of provisions resulting from remeasurement of the estimated future outflow of economic benefits or service potential, or from settlement of the provisions without cost to the department;**
 - (e) unused amounts reversed during the period; and**
 - (f) reimbursements expected from another party.**
- .46 A department shall disclose the following for each class of provision:**
- (a) a brief description of the nature of the obligation and the expected timing of any resulting outflows of economic benefits or service potential; and**
 - (b) an indication of the uncertainties about the amount or timing of those outflows. Where necessary to provide adequate information, a department shall disclose the major assumptions made concerning future events, as addressed in paragraph .32.**
 - (c) the amount of any expected reimbursement, stating the amount of any asset that has been recognised/recorded for that expected reimbursement.**
- .47 In determining which provisions may be aggregated to form a class, it is necessary to consider whether the nature of the items is sufficiently similar for a single statement about them to fulfil the requirements of paragraphs .46(a) and (b).**
- .48 A department shall disclose in the note on employee benefits, the value of each major class of provisions for employee benefits as at the reporting date.**

Contingent liabilities

Disclosure criteria

- .49 A department shall not recognise a contingent liability.**
- .50 A department shall disclose a contingent liability unless the possibility of an outflow of resources embodying economic benefits or service potential is remote.**
- .51 Where a department is jointly and severally liable for an obligation, the part of the obligation that is expected to be met by other parties is treated as a contingent liability. For example, in the case of joint venture debt, that part of the obligation that is to be met by other joint venture participants is treated as a contingent liability. The department discloses a provision for the part of the obligation for which an outflow of resources embodying economic benefits or service potential is probable, except in the rare circumstances where no reliable estimate can be made.**
- .52 Contingent liabilities may develop in a way not initially expected. Therefore, they are assessed**

continually to determine whether an outflow of resources embodying economic benefits or service potential has become probable. If it becomes probable that an outflow of future economic benefits or service potential will be required for an item previously dealt with as a contingent liability, a provision is disclosed in the financial statements of the period in which the change in probability occurs, except in the extremely rare circumstances where no reliable estimate can be made. For example, a department may have breached an environmental law but it remains unclear whether any damage was caused to the environment. Where, subsequently, it becomes clear that damage was caused and remediation will be required, the department would disclose a provision because an outflow of economic benefits is now probable.

Disclosure requirements

- .53 Unless the possibility of any outflow in settlement is remote, a department shall disclose for each class of contingent liability at the reporting date a brief description of the nature of the contingent liability and, where practicable:**
- (a) an estimate of its financial effect, measured under paragraphs .25 to .35;**
 - (b) an indication of the uncertainties relating to the amount or timing of any outflow; and**
 - (c) the possibility of any reimbursement.**
- .54 In determining which contingent liabilities may be aggregated to form a class, it is necessary to consider whether the nature of the items is sufficiently similar for a single statement about them to fulfil the requirements of paragraphs .46(a) and (b).**
- .55 Where any of the information required by paragraph .53 is not disclosed because it is not practicable to do so, that fact shall be stated.**

Contingent assets

Disclosure criteria

- .56 A department shall not recognise a contingent asset.**
- .57 A department shall disclose a contingent asset where an inflow of economic benefits or service potential is probable.**
- .58 Contingent assets usually arise from unplanned or other unexpected events that are not wholly within the control of the department and give rise to the possibility of an inflow of economic benefits or service potential to the department. An example is a claim that a department is pursuing through legal processes, where the outcome is uncertain.**
- .59 Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. Where the inflow is virtually certain (and measurable) but not yet received, then the department discloses the amount as a receivable for departmental revenue. If an inflow has become probable, a department discloses the contingent asset.**

Disclosure requirements

- .60 Where an inflow of economic benefits or service potential is probable, a department shall disclose a brief description of the nature of the contingent assets at the reporting date, and, where practicable, an estimate of their financial effect, measured using the principles set out for**

provisions in paragraphs .25 to .35.

- .61 The disclosure requirements in paragraph .57 are only intended to apply to those contingent assets where there is a reasonable expectation that benefits will flow to the department. It is important that disclosures for contingent assets avoid giving misleading indications of the likelihood of revenue arising. For example, a contingent asset would arise from a contract where a department allows a private sector company to mine one of its properties in exchange for a royalty based on a set price per ton extracted and the company has commenced mining. In addition to disclosing the nature of the arrangement, the contingent asset should be quantified where a reasonable estimate can be made of the quantity of mineral to be extracted and the timing of the expected cash inflows. If there were no proven reserves or some other circumstances prevailed that indicated that it would be unlikely that any minerals would be extracted, the department would not disclose information required by paragraph .57 as there is no probable flow of benefits
- .62 **Where any of the information required by paragraphs .60 and .61 is not disclosed because it is not practicable to do so, that fact shall be stated.**

Commitments

- .63 A department has a commitment when it has irrevocably bound itself to future transactions of a capital nature that will result in the outflow of cash. For example, a department awarded a tender and signed a contract with a company for the construction of a dam and at the reporting date construction work has not yet begun. The department accordingly discloses the unrecognised capital expenditure as a commitment in the notes as required by paragraph .64 below.

Disclosure criteria

- .64 **A department shall record its commitments, at cost (as evidenced by the contract value), as at the reporting date.**

Disclosure requirements

- .65 **A department shall disclose its commitments for capital expenditure as at the reporting date. In disclosing the commitments, the department shall differentiate between different classes of capital assets.**
- .66 Commitments as per paragraph .64 excludes salary commitments relating to employment contracts or social security benefit commitments and transfer and subsidies.
- .67 A department shall disclose comparative information in respect of the previous period for capital commitments only.

General

- .68 **In extremely rare cases, disclosure of some or all of the information required this Chapter can be expected to prejudice seriously the position of the department in a dispute with other parties on the subject matter of the provision, contingent liability or contingent asset. In such cases, a department need not disclose the information, but shall disclose the general nature of the dispute, together with the fact that, and reason why, the information has not been disclosed.**

Comparison with GRAP 19 on Provisions, Contingent Liabilities and Contingent Assets

Chapter 14 is primarily drawn from GRAP 19. The main differences between this Chapter and GRAP 19 are as follows:

- GRAP 19 excludes from its scope provisions and contingent liabilities arising from social benefits, a similar scope exclusion is not included in this Chapter as social benefits are accounted for when paid.
- The Chapter has a definition and section on the identification and disclosures of commitments all of which is not included in GRAP 19. The disclosures, limited to capital commitments were however drawn from the various Standards of GRAP dealing with the accounting for non-financial assets.
- The Chapter does not require any accounting about onerous contracts, this is regarded as a timing difference and has not been included in the accounting requirements for a department at this stage.
- Reference to provisions and contingents of an insurer has not been included in the scope of this Chapter as this was not considered to apply to the activities of a department.
- The Chapter excludes from its scope the recording of separate obligations (legal or otherwise) about the dismantling, removal or restoration of assets and/or any sites related thereto due to capacity constraints of departments. Such obligations are within the scope of GRAP 19.
- The Chapter does not refer to the disclosure of information on discontinued operations as there is no equivalent chapter in the MCS.
- All financial guarantee contracts issued by a department are accounted for in terms of the Chapter only. GRAP 19 requires an entity to also apply the derecognition and disclosure requirements in the Standard of GRAP on Financial Instruments to financial guarantee contracts.
- The Chapter does not specifically discuss the tax implication for provisions as it would not apply to departments. GRAP 19 states that provisions are measured before tax or tax equivalents (whichever is applicable) and refers entities to IAS 12.
- The effect of time value of money is ignored in the Chapter for practical purposes. GRAP 19 requires entities to measure a provision at the present value of the expenditure required to settle the obligation where the effect of the time value of money is material.
- The Chapter does not discuss the treatment of gains from the expected disposal of assets as the separate recognition of the proceeds is a concept already required due to the basis of accounting applied. GRAP 19 specifically discusses the separate recognition of any gains on expected disposals of assets.
- The Chapter does not include a discussion on future operating deficits because provisions are recorded and not recognised in the financial statements of a department. GRAP 19 has a specific section on future operating deficits and discusses that provisions are not recognised for such.

Chapter 15: Related Party Disclosures

Chapter content

Objective	168
Scope	168
Definitions.....	168
Purpose of related party disclosures.....	169
Close member of the family of a person	170
Identifying related parties	170
Disclosures	171
Comparison with GRAP 20 on Related Party Disclosures	173

This Chapter formed part of the original Standard published in 2013 and has since then been considered for improvement as part of the amendments process conducted by the National Treasury's Office of the Accountant-General, more specifically:

- Amendments to the Modified Cash Standard (Issued 31 March 2022); and
- Amendments to the Modified Cash Standard (Issued 31 March 2025).

Objective

- .01 The objective of this Chapter is to prescribe how a department should identify and disclose related party relationships and certain transactions with related parties.

Scope

- .02 A department that prepares and presents financial statements under the modified cash basis of accounting shall apply this Chapter in identifying and disclosing related party relationships and transactions, as part of its secondary financial information.
- .03 The terms “management” and “key management personnel” are used interchangeably for the purposes of this Chapter.

Definitions

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

Close members of the family of a person are those family members who may be expected to influence, or be influenced by that person in their dealings with the department. As a minimum, a person is considered to be a close member of the family of another person if they:

- (a) are married or live together in a relationship similar to a marriage; or
- (b) are separated by no more than two degrees of natural or legal consanguinity or affinity.

Joint control is the agreed sharing of control over an activity by a binding arrangement, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers).

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

A related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control. As a minimum, the following are regarded as related parties of the reporting department:

- (a) a person or a close member of that person’s family is related to the department if that person:
 - (i) has control over the department; or
 - (ii) is a member of the management of the department or its executive authority.
- (b) an entity is related to the department if any of the following conditions apply:
 - (i) the entity is a member of the same economic entity (which means that each controlling entity, controlled entity and fellow controlled entity is related to the others) or group entity;
 - (ii) the entity is controlled or jointly controlled by a person identified in (a); and

(iii) a person identified in (a)(i) has significant influence over that entity or is a member of the management of that entity (or its controlling entity).

Related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

Significant influence is the power to participate in the financial and operating policy decision of an entity, but not control those policies.

Terms defined in other Chapters are used in this Chapter with the same meaning as in those other chapters.

Purpose of related party disclosures

- .05 Related party relationships exist throughout the public sector, because:
- (a) departments are subject to the overall direction of an executive government, and ultimately, parliament, and operate together to achieve the policies of the government;
 - (b) departments frequently conduct activities necessary for the achievement of different parts of their responsibilities and objectives through separate controlled entities, and through entities over which they have significant influence;
 - (c) public entities enter into transactions with other government entities on a regular basis; and
 - (d) ministers or other elected or appointed members of the government and other members of management can exert significant influence over the operations of a department or other entity.
- .06 Government and entities are expected to use resources efficiently, effectively and in the manner intended, and to deal with public monies with the highest levels of integrity. The existence of related party relationships means that one party can control, jointly control or significantly influence the activities of another party. This provides the opportunity for transactions to occur on a basis that may give one party an advantage at the expense of another. Disclosure of related party transactions, outstanding balances, and the relationship underlying those transactions is necessary for accountability purposes. It enables users to better understand the financial statements of the reporting entity because:
- (a) related party relationships can influence the way in which a department operates with other entities in achieving its objectives, and the way in which it co-operates with other entities in achieving common or collective objectives;
 - (b) related party relationships might expose a department to risks or provide opportunities that would not have existed in the absence of such a relationship; and
 - (c) related parties may enter into transactions that unrelated parties would not enter into, or may agree to transactions on different terms and conditions than those that would normally be available to unrelated parties. This occurs frequently where goods and/or services are transferred between entities at less than full cost recovery as a part of normal operating parameters consistent with the achievement of the objectives of the department and the government.
- .07 Management holds positions of responsibility within a department. Members of management are responsible for the strategic direction and operational management of a department and are entrusted with significant authority. Their remuneration may be established by statute or by another body independent of the reporting department. However, their responsibilities may enable them to influence the benefits of office that flow to them, or their related parties or parties that they represent on the governing body.

- .08 Disclosure of related party transactions and balances may affect users' assessments of the financial statements of the reporting department and its ability to deliver agreed services, including assessments of the risks and opportunities facing the department. This disclosure also ensures that the reporting department is transparent about its dealings with related parties.

Close member of the family of a person

- .09 Judgement will be necessary in determining whether a person should be identified as a close member of the family or another person for purposes of application of this Chapter. In the absence of information to the contrary, such as where a spouse or other relative is estranged from the person, immediate family members and close relatives are presumed to have, or be subject to, such influence as to satisfy the definition of close members of the family of that person. At a minimum, the following should be considered to be close members of the family:
- (a) that person's children and spouse or domestic partner;
 - (b) children of that person's spouse or domestic partner;
 - (c) dependants of that person or that person's spouse or domestic partner;
 - (d) a grandparent, grandchild, parent, brother or sister; and
 - (e) a parent-in-law, brother-in-law or sister-in-law.

Identifying related parties

- .10 The definition of related party includes circumstances in which one party has the ability to exercise significant influence over the other party. In the public sector, an individual or department may be given oversight responsibility for a reporting entity, which gives them significant influence, but not control, over the financial and operating decisions of the reporting entity.
- .11 Departments are related parties because they are subject to common control (they operate together to achieve common objectives determined by Cabinet/Provincial Legislature). However, a department in one province is not "related" to another department in a different province. In addition, a municipality is not necessarily a related party to a department.
- .12 Related parties include:
- (a) entities that directly, or indirectly through one or more intermediaries, control or are controlled by the reporting entity;
 - (b) associates and joint ventures;
 - (c) individuals owning, directly or indirectly, an interest in the reporting entity that gives them significant influence over the department, and close members of the family of any such individual;
 - (d) key management personnel, and close members of the family of key management personnel; and
 - (e) entities in which a substantial ownership interest is held, directly or indirectly, by any person described in (c) or (d), or over which such a person is able to exercise significant influence.

Control

- .13 An entity (or a person or body of persons) has control over another entity when it has certain decision-making capabilities over another and it benefits from the activities of that entity.

- .14 In addition to the indicators provided in the above definition, one or more of the circumstances listed below either individually or collectively can be indicative of the existence of control:
- (a) the department has the ability to veto operating and capital budgets of the other entity;
 - (b) the department has the ability to veto, overrule, or modify the board of directors or equivalent governing body decisions of the other entity;
 - (c) the department has the ability to approve the hiring, reassignment and removal of key personnel of the other entity;
 - (d) the mandate of the other entity is established and limited by legislation;
 - (e) the department holds a “golden share” (or equivalent) in the other entity that confers rights to govern the financial and operating policies of that entity;
 - (f) the department holds direct or indirect title to the net assets of the other entity;
 - (g) the department has a right to a significant level of the net assets of the other entity in the event of a liquidation or in a distribution other than a liquidation;
 - (h) the department is able to direct the other entity to co-operate with it in achieving its objectives; and
 - (i) the department is exposed to the residual liabilities of the other entity.
- .15 The national departments do not control provinces or municipalities for accounting purpose, although funding may be received from the national government.

Key management personnel

- .16 Key management personnel are those persons having the authority and responsibility for planning, directing and controlling the activities of the department.
- .17 Remuneration to close members of the family of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the department (where these individuals are paid by the department)
- .18 Remuneration includes:
- (a) Short-term employee benefits such as salaries, unemployment insurance and workmen’s compensation funds (where applicable), paid annual leave and paid sick leave, profit sharing and bonuses and non-monetary benefits such as medical benefits, housing, cars and free or subsidised goods and services;
 - (b) post-employment benefits (social benefits) such as pensions, other retirement benefits, post-employment life insurance and medical care;
 - (c) other long-term employee benefits, including long-service leave or sabbatical leave, long term disability benefits; and
 - (d) termination benefits.

Disclosures

Disclosures of related party transactions

- .19 **Subject to the exemption in paragraph .23 and .24, a department shall disclose transactions and balances with its related parties falling under its Minister/MEC’s portfolio. In making this disclosure the department shall provide:**

- (a) a breakdown of related party revenue into the major categories of revenue;
- (b) a breakdown of related party expenditure into the major categories of expenditure;
- (c) the total balances of receivables and payables that arose from related party transactions;
- (d) the balance of loans made to / from related parties; and
- (e) a breakdown of any guarantees issued to related parties;
- (f) a breakdown of any other contingent liabilities between the department and the related parties; and
- (g) disclose information about any in-kind goods or services received from or provided to a related party.

.20 The disclosure required in terms of paragraph .19(b) above excludes transfers and subsidies paid to government entities where these have been included in the annexures to the financial statements.

.21 A department shall further disclose a list and the nature of its related party relationships with government entities (including departments) falling under its Minister/MEC's portfolio, irrespective of whether there were any transactions between the related parties.

Disclosures of key management personnel

.22 A department shall disclose the following with regards to key management personnel:

- (a) full compensation paid to key management personnel.
- (b) a department shall also disclose the total payments made to close family members of key management personnel.

Disclosure exemption

.23 A department is exempt from all the disclosure requirements in paragraph .18 in relation to related party transactions if that transaction occurs within:

- (a) a normal supplier and/or client/recipient relationship on terms and conditions no more or less favourable than those which it is reasonable to expect the department to have adopted if dealing with that individual entity or person in the same circumstances; and
- (b) terms and conditions within the normal operating parameters established by that reporting department's legal mandate.

.24 A department is exempt from all the disclosure requirements in paragraph .19 in relation to related party transactions with close family members of key management personnel.

Comparison with GRAP 20 on Related Party Disclosures

Chapter 15 is primarily drawn from GRAP 20. The main differences between this Chapter and GRAP 20 are as follows:

- GRAP 20 provides additional guidance on managing a reporting and economic entity; this guidance has not been included in this Standard.
- This Chapter does not include the guidance from GRAP 20 on significant influence as it is not likely to be relevant to departments.
- This Chapter has an additional exemption in that it needs only disclose transactions and balances with its related parties falling under its Minister/MEC's portfolio.

Chapter 16: Accounting By Principals And Agents

Chapter Content

Objective	176
Scope	176
Definitions.....	176
Binding arrangement.....	177
Principal-agent arrangement.....	177
Principal and agent	178
Identifying whether an entity is a principal or an agent.....	179
Binding arrangement.....	179
Assessing which entity benefits from the transactions with third parties	180
Accounting by a principal or an agent.....	183
Recognising revenue and expenses as a principal or an agent	183
Recognising/recording assets and liabilities as a principal or an agent	184
Presentation	185
Disclosure.....	186
Comparison with GRAP 109 on Accounting by Principals and Agents	188

This Chapter formed part of the original Standard published in 2013 and has since then been reissued for application in 2015 and considered for improvement as part of the amendments process conducted by the National Treasury's Office of the Accountant-General, more specifically:

- Amendments to the Modified Cash Standard (Issued 31 March 2025).

Objective

- .01 The objective of this Chapter is to outline principles to be used by a department to assess whether it is party to a principal-agent arrangement, and whether it is a principal or an agent in undertaking transactions in terms of such an arrangement.
- .02 This Chapter does not introduce new recognition / recording or measurement requirements for revenue, expenses, assets and/or liabilities that result from principal-agent arrangements. This Chapter does however provide guidance on whether revenue, expenses, assets and/or liabilities should be recognised / recorded by an agent or a principal, as well as prescribe what information should be disclosed when a department is a principal or an agent.

Scope

- .03 **A department that prepares and presents financial statements under the modified cash basis of accounting shall apply this Chapter in determining whether it is a principal or an agent in a principal-agent arrangement.**
- .04 **When a department is a party to a principal-agent arrangement, it shall apply the principles in this Chapter to assess whether it is a principal or an agent before applying other Chapters dealing with the recognition, recording and measurement of revenue, expenses, assets and/or liabilities.**
- .05 **This Chapter applies to arrangements between a department and other government institutions and to arrangements between a department and non-governmental institutions.**

Definitions

- .06 ***The following terms are used in this Chapter with the meanings specified:***

An agent is an entity that has been directed by another entity (a principal), through a binding arrangement, to undertake transactions with third parties on behalf of the principal and for the benefit of the principal.

A binding arrangement is an arrangement that confers enforceable rights and obligations on the parties to the arrangement as if it were in the form of a contract. It includes rights from contracts or other legal rights.

A principal is an entity that directs another entity (an agent), through a binding arrangement, to undertake transactions with third parties on its behalf and for its own benefit.

A principal-agent arrangement results from a binding arrangement in which one entity (an agent), undertakes transactions with third parties on behalf, and for the benefit of, another entity (the principal).

Terms defined in other chapters are used in this Chapter with the same meaning as in those other chapters.

Binding arrangement

.07 Binding arrangements can be evidenced in several ways:

- (a) a contract concluded between the parties;
- (b) legislation, supporting regulations or similar means including, but not limited to, laws, regulation, policies, decisions concluded by authorities such as cabinet, executive committees, boards, municipal councils and ministerial orders; or
- (c) through the operation of law, including common law.

A binding arrangement is often, but not always, in writing, in the form of a contract or documented discussions between the parties

Principal-agent arrangement

.08 The Constitution of the Republic of South Africa, 1996, sets out the various responsibilities of government, and assigns activities to various spheres of government or to particular types of entities. Supporting legislation within each sphere of government sets out the mandate, authority, roles and responsibilities of specific entities in undertaking the activities outlined in the Constitution. In many cases, this legislation results in the establishment of separate entities to undertake these activities. It is however not feasible to establish separate entities in all instances, and it may be more efficient and effective to utilise other entities to undertake certain activities. As a result, entities frequently have certain activities executed by another entity, or undertake activities on behalf of other entities. The ultimate responsibility, however, for the various activities still rests with the entities identified in legislation.

.09 Where these arrangements exist, it is important to identify which entity should account for the transactions arising from these activities, and what resulting revenue, expenses, assets and/or liabilities should be recognised or recorded. Examples of typical arrangements where one entity undertakes activities on behalf of another entity in the public sector may include:

- The collection of revenue, including taxes, fees and other charges from specific parties, e.g. motor vehicle license fees collected by municipalities for the provincial government, and taxes collected by the Revenue Authority for the national government.
- The construction of assets, e.g. houses built for beneficiaries of the reconstruction and development programme, for national and/or provincial housing departments and organisations.
- Property management services, which may include the maintenance of properties and collection of revenue, for the department of Public Works.

.10 Public Private Partnerships (PPP) may be an example of a principal-agent arrangement as one party (the operator, which is usually a private sector entity) carries out certain activities on behalf of the other entity (the grantor, which is usually a public sector entity) in relation to third parties (the public). An entity should assess whether a principal-agent arrangement exists, and whether it is a principal or an agent in such an arrangement using this Chapter.

.11 When a department directs another entity to undertake an activity on its behalf, it must consider whether it is a party to a principal-agent arrangement. The definition of a principal-agent arrangement refers to an entity acting on behalf of another entity in relation to transactions with third parties. In the absence of transactions with third parties, the arrangement is not a principal-agent arrangement, and the entity then acts in another capacity rather than as an agent. This type of assessment may be particularly

relevant to the following two scenarios that are often encountered in the public sector:

- (a) Departments are often asked to collect money from public entities or other agencies and to subsequently deposit the money into the relevant revenue fund. In these arrangements, although the departments seemingly undertake activities on behalf of the revenue fund, there is no specific direction given by the revenue fund in relation to the transactions with third parties. As a result, such arrangements may not meet the definition of a principal-agent arrangement
- (b) The structure and operation of the public sector means that entities frequently control other entities. Although these control relationships mean that the controlling entity is able to direct the activities of an entity so that it benefits from those activities, these relationships by themselves do not indicate the existence of a principal-agent arrangement. Only where a controlling entity specifically directs a controlled entity to undertake transactions with third parties for its benefit will a principal-agent arrangement exist. In control relationships, it is possible for one or more principal-agent arrangements to exist within the context of a control relationship.

- .12 **“Transactions with third parties”** in the context of this Chapter includes the execution of a specific transaction with a third party, e.g. a sale or purchase transaction, but it also includes interactions with third parties, e.g. when an agent is able to negotiate with third parties on the principal's behalf. The nature of the transactions with third parties is linked to the type of activities carried out by the agent in accordance with the binding arrangement. These activities could include the agent transacting with third parties for the procurement or disposal of resources, or the receipt of resources from a third party on behalf of the principal.
- .13 Principal-agent arrangements usually exist as a result of a binding arrangement between the parties to the arrangement. It is unlikely that an entity would undertake activities on behalf of another entity in the absence of a binding arrangement as the arrangement imposes rights and obligations on the parties to perform in a particular manner.
- .14 Where no binding arrangement exists, it is assumed that the entity is acting for itself, rather than on behalf of another entity. As a result, no principal-agent arrangement exists in the absence of a binding arrangement.

Principal and agent

- .15 A principal is an entity that directs another (an agent) to undertake transactions with third parties, for the benefit of the principal, in terms of a binding arrangement. The focus of this Chapter is establishing whether one entity directs another in relation to specific transactions with third parties within a particular arrangement, rather than considering whether one entity directs or has the power over another entity generally (refer to paragraph .11(b)).
- .16 The definition of an agent and principal uses the term “entity” to broadly describe a party to an arrangement. Although principals and agents are usually reporting entities, an individual person may also be a principal or an agent. Legislation may assign certain activities to a political office-bearer, such as a Minister of a particular department, or the accounting officer of an entity, rather than to a specific entity. Individuals may also carry out activities on behalf of public sector entities. The requirements of this Chapter apply equally to such arrangements with individuals. However, since individuals are not reporting entities, it is important to identify the reporting entity that the individual agent or principal represents in such scenarios.
- .17 In certain instances, an entity may identify that a particular bank account or fund benefits from specific transactions undertaken with third parties in an arrangement. The entity or individual (or the entity he

or she represents) that controls that fund or bank account is deemed to be the “entity” which is party to the arrangement.

Identifying whether an entity is a principal or an agent

- .18 **When a department is party to a principal-agent arrangement, it shall assess whether it is the principal or the agent in accounting for revenue, expenses, assets and/or liabilities that result from transactions with third parties undertaken in terms of the arrangement. The assessment of whether a department is a principal or an agent requires the department to assess whether the transactions it undertakes with third parties are for the benefit of another entity or for its own benefit.**

Binding arrangement

- .19 **A department assesses whether it is an agent or a principal by assessing the rights and obligations of the various parties established in the binding arrangement.**
- .20 Principal-agent arrangements are governed by a binding arrangement. The requirements of these binding arrangements, particularly the rights and obligations established for the various parties, inform a department's assessment of whether it undertakes transactions for its own benefit, or for the benefit of another entity. The terms and conditions of the binding arrangement should be assessed to determine the roles, responsibilities and authority of parties in relation to the activities and resulting transactions undertaken in terms of that arrangement.
- .21 For the purpose of this Chapter, a binding arrangement is any arrangement that confers enforceable rights and obligations on the various parties in the principal-agent arrangement and may arise from the following means:
- (a) a contract concluded between the parties;
 - (b) legislation or similar means, including but not limited to, laws, regulation, policies, decisions concluded by authorities such as cabinet, executive committees, board and ministerial orders; or
 - (c) through the operation of law, including common law.
- .22 In the public sector, identifying a binding arrangement may be difficult and often requires a significant degree of judgement due to a lack of formal agreements between entities. In the absence of (a) to (c) above, an arrangement that establishes rights and obligations, for the various parties to the arrangement, through past actions which, over time, results in either party having no realistic alternative but to act in a certain way in relation to the arrangement, may also give rise to a binding arrangement.
- .23 A binding arrangement may use the term “principal” or “agent” for specific parties to the arrangement. Even if these terms are legally assigned to specific parties in the arrangement, a department should assess, based on the principles in this Chapter, whether the arrangement is a principal-agent arrangement and whether the department is the principal or agent.
- .24 **Where the terms of a binding arrangement are modified, the parties to the arrangement shall reassess whether they act as a principal or an agent in accordance with this Chapter.**
- .25 The assessment of whether a department is a principal or an agent is based on the terms outlined in the binding arrangement. If these terms are modified, it may result in a change in classification as either a principal or an agent, or may have consequences for the recognition/recording and measurement of

revenue, expenses, assets and/or liabilities. Any changes are accounted for using Chapter 4 on *Accounting Policies, Estimates and Errors*.

Assessing which entity benefits from the transactions with third parties

- .26 **When a department in a principal-agent arrangement concludes that it undertakes transactions with third parties for the benefit of another entity, then it is the agent. If the department concludes that it is not the agent, then it is the principal in the transactions.**
- .27 **A department is an agent when, in relation to transactions with third parties, all three of the following criteria are present, except as outlined in paragraph .28:**
- (a) It does not have the power to determine the significant terms and conditions of the transaction.**
 - (b) It does not have the ability to use all, or substantially all, of the resources that result from the transaction for its own benefit.**
 - (c) It is not exposed to variability in the results of the transaction.**
- .28 **Where a department has been granted specific powers in terms of legislation to direct the terms and conditions of particular transactions, it is not required to consider the criteria in paragraph .27(a) to conclude that is an agent. Departments shall apply judgement in determining whether such powers exist and whether they are relevant in assessing whether the department is an agent.**
- .29 In assessing which entity is the principal or the agent, a department assesses whether it undertakes transactions with third parties for the benefit of another entity or for its own benefit. An entity assesses whether it is the agent using the criteria outlined in paragraph .27. If the department assesses that it is not the agent, then by default it is the principal.
- .30 All three of the criteria in paragraph .27 must be present for a department to be an agent. There may however be instances when legislation or equivalent grants powers to an entity to determine the terms and conditions of particular transactions. This is particularly the case where an entity acts in a regulatory capacity or as an enforcement agency. Where these powers are granted to entities, the criteria in paragraph .27(a) may not be a useful determinant in assessing whether an entity is an agent or a principal. In these instances, the criteria in paragraph .27(b) and (c) are more relevant because even though these entities may have the power to determine the significant terms and conditions, they are often not able to use all or substantially all of the resources that result from the transaction, nor are they exposed to variability in the results of the transactions. There may be a strong link between the powers granted to entities to direct the terms and conditions of transactions as envisaged in paragraph .27(a), and the circumstances that may give rise to the recognition/recording of receivables or payables as an agent as explained in paragraph .56 to .61.
- .31 A department assesses whether it is the principal or the agent based on the transactions with third parties. This does not require a department, in all instances, to assess whether it is the principal or the agent in each individual transaction with third parties. Instead, it may be appropriate to make this assessment for specific transaction types where they share similar characteristics, for example, a specific type of revenue transaction, or a specific type of expense transaction.

Power to determine the significant terms and conditions of the transactions with third parties

- .32 For a department to be an agent, it must not have the power to determine the significant terms and

conditions of the transactions with third parties. This means that it should not have the power to affect the result of the transaction. The result of a transaction is the economic benefits or service potential (or both) that arise from that transaction. The economic benefits or service potential can therefore be quantitative or qualitative.

- .33 The quantitative result of a transaction represents the monetary amount of a transaction and could include:
- (a) The amount paid by the third party for a good or a service received, or the amount of any tax, levy or other charge paid.
 - (b) The amount paid to the third party for goods and services procured, or benefits paid and classified as a transfer to households, e.g. a social benefit.
- .34 The qualitative result of a transaction could include:
- (a) The quality of a particular good or service received by the third party.
 - (b) The administrative efficiency with which a specific transaction or activity should be performed.
 - (c) The volume of a good or service provided to the third party.
- .35 An entity does not have the power to determine the significant terms and conditions of transactions with third parties if it is not able to decide, for example, the following aspects:
- (a) What goods and services should be provided to, or procured from, third parties; or what taxes, levies or other charges should be levied on, or payments made to, third parties.
 - (b) To whom goods and services should be provided, or from whom goods and services should be procured; or on whom taxes, levies or other charges should be levied, or to whom payments should be made. This does not require the identification of specific individual third parties, and could be groups of affected third parties.
 - (c) The price to be paid by third parties, or agree on the price to be paid to third parties; or the amount of tax, levies or other charges to be paid by, or the amount of payments to be made to, third parties.
 - (d) The quality of the goods and services provided to, or received from, third parties. This may be less relevant to transactions that relate to taxes, levies, charges received by, or payment by or to, third parties.

This list is not exhaustive

- .36 When the department needs to defer significant decisions that affect the results of the transaction to another entity, this is an indicator that it does not have the power to determine the significant terms and conditions of the transactions with third parties. Entities may frequently be required to receive approval for undertaking certain transactions from another authority before finally concluding the transaction. A department should assess whether such approval is seen as granting regulatory approval for entering into the transaction, or whether it is seen as approving the significant terms and conditions of that specific transaction.

Ability to use all or substantially all of the resources that result from the transactions with third parties

- .37 A department does not have the ability to use the resources that result from the transactions with third parties when it does not have unrestricted access to those resources and cannot use those resources for its own benefit.
- .38 To assess whether a department has unrestricted access to the resources that result from the

transactions with third parties or not, it must assess the economic substance of the rights and obligations of the parties specified in the binding arrangement. As an example, the conclusion of a contract (or equivalent) between parties does not in itself indicate that those are the parties that have unrestricted access to, and will benefit from, the resources that result from that contract. Similarly, physical possession of a resource by a department does not in itself mean that it has unrestricted access to that resource, as possession may have been granted to that department to enable it to fulfil its obligations under the binding arrangement.

- .39 The types of resources that result from transactions with third parties could vary depending on the activities that are to be undertaken in terms of the binding arrangement. The resources that could result from transactions with third parties include:
- Receipts related to specific goods and services provided, or taxes, levies and other charges.
 - Disbursements for specific goods and services procured to enable the execution of the transactions with third parties. The goods and services procured could also result in inventory.
- .40 In the public sector, entities are frequently required to pay the proceeds of certain transactions or activities to the relevant Revenue Fund. This does not, by itself, mean that the entity is not able to use all or substantially all of the resources that result from transactions with third parties. A department would need to assess whether the requirement to pay certain proceeds to the Revenue Fund is a cash management arrangement, or whether the type of proceeds collected are of a specific nature (i.e. taxes, levies, certain fines and other charges outlined in legislation) that are collected for the benefit of the Revenue Fund. Where the payment of the proceeds to the Revenue Fund is merely in the interest of managing cash more effectively, the department may still be able to demonstrate that it uses all or substantially all of the resources that result from the transactions with third parties.
- .41 As noted in paragraph .27, a department must not have the ability to use all, or substantially all, of the resources that result from the transactions with third parties. In principal-agent arrangements, the agent is often permitted to retain a portion of the revenue collected as a fee, e.g. a commission, or administration or transaction fee, for the service provided. This fee is usually nominal in relation to the total revenue collected, and as a result, the department would not have the ability to use all or substantially all of the resources that result from the transaction.

Exposure to variability in the results of transactions with third parties

- .42 As noted in paragraph .32 above, the results of the transaction are the economic benefits or service potential (or both) generated by the activity. A department's exposure to the results of a transaction does not only refer to the receipt or sacrifice of economic benefits or service potential. It also refers to the end result achieved by undertaking a particular transaction. Although results include the specific outputs of a transaction, they may also include exposure to broader consequences arising from a transaction. An entity is exposed to variability in the results of the transaction when it has exposure to both the positive and negative results associated with that transaction, and these exposures are not limited or fixed. There may be a number of factors that a department considers in determining whether it is exposed to the variability in the results of transactions. A department's exposure to the variability in the results of a transaction are usually limited if:
- (a) Another party is responsible for fulfilling the rights and obligations established in the binding arrangement. For example, if the provision of a certain good or service is the responsibility of a specific type of entity in legislation, then it is likely that recipients of that good or service will look to that entity for delivery of those goods or services.
 - (b) The department has limited inventory risk, i.e. the risk of theft, obsolescence or other losses, as well as changes in value.

- (c) The department receives a fixed fee or a fixed margin, e.g. commission, or administration or transaction fee, for carrying out the transactions.
- (d) The department is not exposed to significant default risk, i.e. the risk of fees, taxes, levies or other charges not being paid by third parties.

This list is not exhaustive and other factors may be relevant in assessing exposure to variability in the results of the transactions with third parties.

- .43 Once a department has established that it is an agent or a principal in relation to specific transactions with third parties it applies the principles in paragraphs .44 to .51 below in accounting for the transactions that result from the arrangement.

Accounting by a principal or an agent

- .44 **A principal recognises revenue and expenses that arise from transactions with third parties in a principal-agent arrangement.**
- .45 **An agent recognises only that portion of the revenue and expenses it receives or incurs in executing the transactions on behalf of the principal.**
- .46 **A department recognises/records assets and liabilities arising from principal-agent arrangements in accordance with the requirements of other Chapters of this Standard.**

Recognising revenue and expenses as a principal or an agent

- .47 A department determines, in accordance with this Chapter, whether it is a principal or agent and, in doing so, determines the revenue and expenses that qualify for recognition in its financial statements in accordance with the relevant Chapters of this Standard. When a department determines that it is a principal in accordance with this Chapter, it accounts for revenue received and expenses paid arising from the transactions with third parties in its statement of financial performance. This is because the transactions with third parties are concluded for the benefit of the principal. Conversely, when a department is an agent, it would not recognise revenue and expenses resulting from those transactions with third parties. It only recognises the revenue and expenses associated with undertaking the transactions on behalf of the principal.
- .48 Agents are usually compensated for the transactions that they carry out on behalf of their principals. Compensation can take a variety of forms, and may be fixed or variable in amount. Compensation may be received directly from the principal in the form of a commission, administration or transaction fee for the services it provides in an exchange transaction, or it may receive compensation indirectly from a third party, such as another level of government, in a non-exchange transaction. Some arrangements may stipulate that, instead of paying a specific fee to the agent, the agent is entitled to withhold certain fees collected from third parties (e.g. consumers). These types of compensation typically qualify for recognition as revenue by the agent, because they compensate the agent for transactions undertaken on the principal's behalf.
- .49 Compensation should be distinguished from amounts that are paid to the agent to reimburse it for specific costs incurred, or to be incurred on behalf of the principal. These amounts are not recognised as revenue because the associated expenses incurred are not expenses of the agent, i.e. any goods and services procured, or other expenses incurred, are those of the principal.

- .50 For example, a provincial department is tasked to act as an agent to facilitate the construction of an asset on behalf of a national department, and the national department directs the provincial department to incur certain specific reimbursable costs on its behalf. Such costs and the related recovery thereof should not be recognised in the statement of financial performance of the provincial department. However, any fee payable to the provincial department in respect of the arrangement over and above cost-recoveries may qualify for recognition in accordance with Chapter 7 on *Revenue*. Similarly, any costs incurred in excess of the fee received should be assessed in terms of Chapter 14 on *Provisions and Contingents*.
- .51 As noted in paragraph .45, an agent does not recognise expenses it incurs on behalf of the principal in its statement of financial performance. The result of the transaction with third parties, in this case suppliers, results in the principal having the ability to use all, or substantially all, of the resources related to that transaction and not the agent.

Recognising/recording assets and liabilities as a principal or an agent

- .52 Whether a department is a principal or an agent, it applies the principles in the relevant Chapters of this Standard in recognising/recording assets and liabilities arising from a principal-agent arrangement.
- .53 A principal-agent arrangement often gives rise to the agent holding resources on behalf of the principal in order to undertake transactions with the relevant third parties. This may mean that the agent needs to recognise/record assets and liabilities for these resources held. An agent may also need to recognise/record assets and liabilities as a result of rights and obligations arising from principal-agent arrangements. A department refers to other Chapters of this Standard in determining whether or not assets and liabilities arising from (or related to) principal-agent arrangements should be recognised/recorded.

Resources held on behalf of the principal

- .54 The Chapter 2 on *Concepts and Principles* requires, inter-alia, that a department must control an asset, as a result of a past event, before it can be recognised in the statement of financial position or recorded in the notes to the financial statements. Consequently, an agent assesses whether the resources it holds as a result of undertaking transactions with third parties on behalf of the principal are under its control and would otherwise meet the definition and recognition/recording criteria for such assets in accordance with other Chapters of this Standard.
- .55 Where the assets held by an agent for the principal are indistinguishable from its own assets, it may be appropriate for the agent to recognise/record such items as assets under its control. This would be the case where asset items are homogenous and cannot be separately identified. A corresponding liability should however be recognised/recorded where there is an obligation to transfer resources to the principal in respect of the assets held.

Rights and obligations arising from principal-agent arrangements

- .56 Where an agent holds cash or other monetary assets on behalf of its principal, it is necessary to assess whether this should be recognised as an asset by the agent, with a corresponding liability in respect of the obligation to transfer the amounts to the principal. In making this assessment, the agent considers whether it controls (even if this control is temporary) the cash or other asset it holds, and consequently whether it meets the definition of an asset in accordance with Chapter 2.
- .57 Where an agent is required to collect amounts owing to a principal or another entity, consideration should be given to whether or not it is appropriate for the agent to record the amounts to be collected

as a receivable, along with the corresponding liability to pay over the amounts still-to-be collected to the principal. Similarly, an agent may need to consider whether it should record a payable, along with a corresponding receivable, for amounts which it is obligated to settle on behalf of the principal.

- .58 The binding arrangement will usually outline an agent's responsibilities in relation to the collection of receivables or the settlement of payables. In most instances, an agent's responsibilities will be restricted to either the actual receipt or payment of cash. Legislation may however give a particular entity the sole authority to collect a particular type of debt, or to settle certain obligations, on behalf of the state. The requirements set out in legislation often create clear rights for, and impose obligations on, specific entities to execute these responsibilities. The rights and obligations established for various entities in legislation should be considered in assessing whether an agent should record receivables and payables.
- .59 An agent should assess whether it is appropriate to record receivables and payables based on the rights and obligations established in the binding arrangement, and after considering any relevant facts and circumstances. The following indicators may be useful in assessing whether an agent should record a receivable or a payable:
- (a) The debt is due to, or due by, the agent, i.e. the agent is the counterparty in the transaction with the third party.
 - (b) The agent has the legal right to enforce collection of the debt, or the agent has the legal obligation to settle the debt.
 - (c) The agent determines the amount that must be paid by, or to, the third party based on the policies determined by the principal.
 - (d) The agent determines the manner and timing of settlement.
 - (e) The agent has the power and discretion to write off debts owing by third parties.
 - (f) The agent has an obligation to undertake certain activities, which it is required to do in terms of the binding arrangement.

The list above merely outlines indicators of when it may be appropriate for an agent to record a receivable or payable. A department does therefore not need to demonstrate that they all exist in each instance.

- .60 When an agent records receivables for amounts to be collected for the principal as a result of paragraph .59, it applies Chapter 7, as well as Chapter 9 on *General Departmental Assets and Liabilities* (whichever is applicable) in recording and measuring the receivable. A corresponding liability is recognised/recorded at the same time and at the same amount. The subsequent measurement of any receivables or payables recognised/recorded is determined based on the applicable Chapter of this Standard.
- .61 When an agent records payables for obligations to be settled on behalf of the principal, it applies Chapter 14 or Chapter 9 (whichever is applicable) in recording and measuring the payable. A corresponding asset is recorded at the same time and at the same amount. The subsequent measurement of any receivables or payables recorded is determined based on the applicable Chapter.

Presentation

- .62 **Where assets and liabilities are recognised / recorded, in accordance with other Chapters of this Standard by an agent in respect of those transactions that it undertakes on behalf of its principal, it is inappropriate to offset the assets and liabilities recognised/recorded, unless**

another Chapter permits the offsetting of such amounts.

Disclosure

- .63 In addition to the disclosure requirements set out in paragraphs .64 to .69, the disclosure requirements applicable to revenue, expenses, assets and/or liabilities recognised/recorded in accordance with other Chapters, shall be applied. The information disclosed in accordance with this Chapter shall be provided for each material principal-agent arrangement and in aggregate for other principal-agent arrangements.
- .64 A department that is a party to a principal-agent arrangement shall disclose:
- (a) a description of the arrangement, including the transactions undertaken;
 - (b) whether the department is the principal or agent and any significant judgement applied in making this assessment;
 - (c) significant terms and conditions of the arrangements and whether any changes occurred during the reporting period; and
 - (d) an explanation of the purpose of the principal-agent relationship and any significant risks (including any risk mitigation strategies) and benefits associated with the relationship.

Disclosure by agents

- .65 A department that is the agent in a principal-agent arrangement shall disclose the following in the notes to the financial statements:
- (a) a description of any resources (including the carrying value and description of any assets recognised/recorded) that are held on behalf of a principal, but recognised/recorded in the agent's own financial statements. Such disclosure shall include:
 - (i) the remittance of any resources during the period, as well as the expected timing of remittance of any remaining resources to the principal; and
 - (ii) risks that are transferred from the principal to the agent (if any), including risks flowing to the entity as a result of its custodianship over the resources held on behalf of a principal;
 - (b) the aggregate amount of revenue that the department recognises as compensation for the transactions carried out on behalf of the principal; and
 - (c) a description of any liabilities incurred on behalf of a principal that have been recognised/recorded by the department, as well as any corresponding rights of reimbursement that have been recognised/recorded as assets.
- .66 An agent shall disclose information in the notes to the financial statements about the revenue and expenses that relate to transactions with third parties undertaken in terms of the principal-agent arrangement. An agent shall disclose:
- (a) The category of revenue received or to be received, as well as the category of expenses paid or accrued on behalf of the principal.
 - (b) The amount of revenue received or to be received, as well as the amount of expenses paid or accrued on behalf of the principal during the reporting period per category of revenue or expense.

- .67 Where an agent recognises/records receivables or payables in accordance with paragraph .59, it shall provide a reconciliation of the carrying amount of the receivable or the payable at the beginning and end of the period showing:**
- (a) For receivables:**
 - (i) The amount of revenue that the principal is entitled to;**
 - (ii) The value of any write-offs, settlements or waivers of amounts that reduce the amount that the principal is entitled to;**
 - (iii) The amount of cash received on behalf of the principal.**
 - (b) For payables:**
 - (i) The amount of any expenses incurred on behalf of the principal;**
 - (ii) The amount of cash paid on behalf of the principal.**
- .68 A department provides the disclosures in paragraph .66 and .67 when this information is useful to users in assessing the accountability of the agent in relation to the transactions undertaken with third parties in a principal-agent arrangement.**

Disclosure by principals

- .69 A department that is the principal in a principal-agent arrangement shall disclose the following:**
- (a) the resources (including assets and liabilities) of the entity that are under the custodianship of an agent and whether or not those resources have been recognised/recorded by the agent**
 - (b) any resources remitted during the period along with the expected timing of remittance of any remaining resources back to the entity (where applicable) or to third parties;**
 - (c) the fee paid as compensation to the agent; and**
 - (d) a discussion of the resource or cost implications for the principal if the principal-agent arrangement is terminated.**

Comparison with GRAP 109 on Accounting by Principals and Agents

Chapter 16 is primarily drawn from GRAP 109. The main differences between this Chapter and GRAP 109 are as follows:

- Examples have been aligned to scenarios applicable to departments, e.g. the provision of water to specific communities by municipalities on behalf of water service authorities or the construction of low-cost housing for a national department has not been included in the Chapter.
- The Chapter refers to PPPs rather than “Service concession arrangements” as referred to in GRAP 109 because the MCS does not have an equivalent chapter to GRAP 32 on Service Concession Arrangements: Grantor
- Similarly, the reference to the Standard of GRAP on Consolidated Financial Statements (GRAP 35) has not been included in this Chapter, preparers will only consider the guidance in this Chapter
- References to GRAP 9 on Revenue from Non-Exchange Transactions, GRAP 23 on Revenue from Non-exchange Transactions (Taxes and Transfers), GRAP 104 on Financial Instruments, and GRAP 108 on Statutory Receivables have been replaced with a reference to the equivalent Chapter of the MCS

Chapter 17: Events After The Reporting Date

Chapter content

Objective	191
Scope	191
Definitions.....	191
Authorising the financial statements for issue.....	191
Recognition/recording and measurement	192
Adjusting events after the reporting date	192
Non-adjusting events after the reporting date.....	193
Going concern	193
Restructuring	194
Disclosures.....	194
Comparison with GRAP 14 on Events After The Reporting Date	196

This Chapter formed part of the original Standard published in 2013 and has since then been considered for improvement as part of the amendments process conducted by the National Treasury's Office of the Accountant-General, more specifically:

- Amendments to the Modified Cash Standard (Issued 31 March 2022); and
- Amendments to the Modified Cash Standard (Issued 31 March 2025).

Objective

- .01 The objective of this Chapter is to prescribe:
- (a) when a department should adjust its financial statements for events after the reporting date; and
 - (b) the disclosures that a department should give about the date when the financial statements were authorised for issue and about events after the reporting date.

This Chapter also requires that a department should not prepare its financial statements on a going concern basis if events after the reporting date indicate that the going concern assumption is not appropriate.

Scope

- .02 A department that prepares and presents financial statements under the modified cash basis of accounting shall apply this Chapter in accounting for, and disclosure of, events after the reporting date.

Definitions

- .03 *The following terms are used in this Chapter with the meanings specified:*

Events after the reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- (a) those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- (b) those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

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

Terms defined in other chapters are used in this Chapter with the same meaning as in those other chapters.

Authorising the financial statements for issue

- .04 In order to determine which events satisfy the definition of events after the reporting date, it is necessary to identify both the reporting date and the date on which the financial statements are authorised for issue.
- .05 The reporting date is the last day of the reporting period to which the financial statements relate. The date of authorisation for issue is the date on which the financial statements have received approval from management to be issued to the executive authority. The audit opinion is provided on these finalised financial statements. For example, the accounting officer of the Department of Defence approves the financial statements for the year ended 31 March 20X1 on 28 May 20X1 and submits the financial statements to the auditors for auditing. The financial statements are approved by the accounting officer for issue to the executive authority on 30 July 20X1. On 31 August 20X1, the accounting officer submits

the annual report, including the financial statements and the audit report on those financial statements, to the executive authority for tabling in the National Assembly. The executive authority tables the approved annual report to the National Assembly on 15 September 20X1. The financial statements were authorised for issue on 30 July 20X1, as the audit opinion was provided on those financial statements.

- .06 Events after the reporting date are all events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue, even if those events occur after the publication of an announcement of the surplus or deficit, the authorisation of the financial statements of a controlled entity, or publication of other selected information relating to the financial statements.
- .07 The process involved in preparing and authorising financial statements for issue may vary depending upon the management structure, the statutory requirements relating to the department and the procedures followed in preparing and finalising the financial statements. Responsibility for authorisation of financial statements of a department rests with management (e.g. the accounting officer).

Recognition/recording and measurement

- .08 In the period between the reporting date and the date of authorisation for issue, elected government officials may announce a government's intentions in relation to certain matters. Whether or not these announced government intentions would require recognition/recording as adjusting events would depend upon whether they provide more information about the conditions existing at reporting date and whether there is sufficient evidence that they can and will be fulfilled. In most cases, the announcement of government intentions will not lead to the recognition/recording of adjusting events. Instead, they would generally qualify for disclosure as non-adjusting events.

Adjusting events after the reporting date

- .09 **A department shall adjust the amounts recognised and recorded in its financial statements to reflect adjusting events after the reporting date.**
- .10 The following are examples of adjusting events after the reporting date that require a department to adjust the amounts recognised / recorded in its financial statements, or to recognise / record items that were not previously recognised / recorded:
 - (a) The settlement after the reporting date of a court case that confirms that the department had a present obligation at the reporting date. The department adjusts any previously recorded provision related to this court case in accordance with the Chapter on *Provisions and Contingents* (Chapter 14) or records a new provision. The department does not merely disclose a contingent liability because the settlement provides additional evidence that would be considered in accordance with Chapter 14.
 - (b) The receipt of information after the reporting date indicating that a receivable was impaired at the reporting date, or that the amount of a previously recognised impairment loss for that asset needs to be adjusted. For example the insolvency of a debtor that occurs after the reporting date usually confirms that a loss existed at the reporting date on a receivable account and that the department needs to adjust the carrying amount of the receivable.
 - (c) The determination after the reporting date of the cost of assets purchased, or the proceeds from assets sold, before the reporting date.

- (d) The determination after the reporting date of the amount of revenue collected during the reporting period to be shared with another entity under a revenue sharing agreement in place during the reporting period.
- (e) The determination after the reporting date of the amount of bonus, incentive and performance related payments to be made to staff if the department had a present legal or constructive obligation at the reporting date to make such payments as a result of events before that date (see Chapter 9 on *General Departmental Assets and Liabilities*).
- (f) The discovery of fraud or errors that show that the financial statements are incorrect.

Non-adjusting events after the reporting date

- .11 **A department shall not adjust the amounts recognised or recorded in its financial statements to reflect non-adjusting events after the reporting date.**
- .12 An example of a non-adjusting event after reporting date is where a department charged with operating particular community service programmes decides after the reporting date, but before the financial statements are authorised, to provide or distribute additional benefits directly or indirectly to participants in those programmes. The department would not adjust the amounts recognised / recorded in the financial statements in the current reporting period, although the additional benefits may meet the conditions for disclosure as non-adjusting events under paragraph .26.

Going concern

- .13 The determination of whether the going concern assumption is appropriate needs to be considered by each department. However, the assessment of going concern is likely to be of more relevance for individual departments than for a government as a whole. For example, an individual department may not be a going concern because the government of which it forms part has decided to transfer all its activities to another entity or department. However, this restructuring has no impact upon the assessment of going concern for the government itself.
- .14 **A department shall not prepare its financial statements on the going concern basis if management determines after the reporting date either that there is an intention to liquidate the department or to cease operating, or that there is no realistic alternative but to do so.**
- .15 In assessing whether the going concern assumption is appropriate for an individual department, management needs to consider a wide range of factors. Those factors will include the current and expected performance of the department, any announced and potential restructuring of organisational units, the likelihood of continued government funding and, if necessary, potential sources of replacement funding.
- .16 In the case of entities, such as departments, whose operations are substantially budget-funded by government, going concern issues generally only arise if the government announces its intention to cease funding the entity.
- .17 If the going concern assumption is no longer appropriate, this Chapter requires a department to reflect this in its financial statements. The impact of such a change will depend upon the particular circumstances of the department, for example, whether operations are to be transferred to another entity, sold or liquidated. Judgement is required in determining whether a change in the carrying value of assets and liabilities is required.

- .18 When the going concern assumption is no longer appropriate, it is also necessary to consider whether the change in circumstances leads to the creation of additional liabilities or triggers clauses in debt contracts leading to the reclassification of certain debts as current liabilities.
- .19 Chapter 3 on *Financial Statement Presentation* requires certain disclosures if:
- (a) the financial statements are not prepared on a going concern basis. Chapter 3 requires that when the financial statements are not prepared on a going concern basis, this must be disclosed, together with the basis on which the financial statements are prepared and the reason why the entity is not considered to be a going concern; or
 - (b) management is aware of material uncertainties related to events or conditions that may cast significant doubt upon the department's ability to continue as a going concern. The events or conditions requiring disclosure may arise after the reporting date. Chapter 3 requires such uncertainties to be disclosed.

Restructuring

- .20 Where a restructuring announced after the reporting date meets the definition of a non-adjusting event, the appropriate disclosures are made in accordance with this Chapter. Simply because a restructuring involves the transfer of a component of a department this does not in itself bring into question the department's ability to continue as a going concern. However, where a restructuring announced after the reporting date means that a department is no longer a going concern, the nature and amount of assets and liabilities recognised/recorded may change.

Disclosures

Disclosure of date of authorisation for issue

- .21 **A department shall disclose the date when the financial statements were authorised for issue and who gave that authorisation.**
- .22 It is important for users to know when the financial statements were authorised for issue, as the financial statements do not reflect events after this date. As explained in paragraph .05, the date of authorisation for issue is the date on which the financial statements have received approval from management to be issued to the executive authority. For example, the accounting officer is required to issue its annual report, including the financial statements and the audit report on those financial statements to the executive authority for tabling in the National Assembly. The executive authority has the responsibility to approve the annual report before submission to the National Assembly. In such cases, the financial statements are authorised for issue when the accounting officer authorises the financial statements for issue to the executive authority. The audit opinion is provided on these finalised financial statements.

Updating disclosures about conditions at the reporting date

- .23 **If a department receives information after the reporting date, but before the financial statements are authorised for issue, about conditions that existed at the reporting date, it shall update disclosures that relate to these conditions, in the light of the new information.**
- .24 In some cases, a department needs to update the disclosures in its financial statements to reflect information received after the reporting date but before the financial statements are authorised for issue, even when the information does not affect the amounts that it recognises in its financial statements. One example of the need to update disclosures is when evidence becomes available after the reporting

date about a contingent liability that existed at the reporting date. In addition to considering whether it should now disclose a provision a department updates its disclosures about the contingent liability in the light of that evidence.

Disclosures of non-adjusting events at the reporting date

- .25 **If non-adjusting events after the reporting date are material, non-disclosure could influence the economic decisions of users taken on the basis of the financial statements. Accordingly, a department shall disclose the following for each material category of non-adjusting event after the reporting date:**
- (a) the nature of the event.**
 - (b) an estimate of its financial effect, or a statement that such an estimate cannot be made.**
- .26 The following are examples of non-adjusting events after the reporting date that would generally result in disclosure:
- (a) the department decides after reporting date, to provide/distribute substantial additional benefits in the future directly or indirectly to participants in community service programmes that it operates, and those additional benefits have a major impact on the department;
 - (b) an acquisition or disposal of a major controlled entity or the outsourcing of all or substantially all of the activities currently undertaken by a department after the reporting date;
 - (c) announcing a plan to discontinue an operation or major programme;
 - (d) major purchases of assets, or decision to dispose of a large number of assets;
 - (e) the destruction of a major building by a fire after the reporting date;
 - (f) abnormally large changes after the reporting date in asset prices or foreign exchange rates.
 - (g) entering into significant commitments or contingent liabilities, for example, by issuing significant guarantees after the reporting date; and
 - (h) commencing major litigation arising solely out of events that occurred after the reporting date.

Comparison with GRAP 14 on Events After The Reporting Date

Chapter 17 is primarily drawn from GRAP 14. The main differences between this Chapter and GRAP 14 are as follows:

- GRAP 14 discusses the treatment of dividends or similar distributions declared by a reporting entity after the reporting date. This section has not been included in the Standard as it is not relevant.
- Examples have been amended to make them more relevant to departments.
- The Chapter uses different terminology, in certain instances, from GRAP 14. The most significant examples include the use of 'department', and 'chapter'. The equivalent terms in GRAP 14 are 'entity', and 'standard' respectively.

Chapter 18: Consolidated Financial Statements

Chapter content

Objective	199
Scope	199
Definitions.....	199
Economic entity	199
Presentation and scope of the consolidated financial statements	200
Consolidation procedures	200
Consolidation disclosures	200
Comparison with the Standards of GRAP.....	201

This Chapter formed part of the original Standard published in 2013 and has since then been considered for improvement as part of the amendments process conducted by the National Treasury's Office of the Accountant-General, more specifically:

- Amendments to the Modified Cash Standard (Issued 31 March 2022); and
- Amendments to the Modified Cash Standard (Issued 31 March 2025).

Objective

- .01 The objective of this Chapter is to prescribe how the consolidation for the national and each provincial sphere of government should be prepared.
- .02 This Chapter further:
- (a) identifies the entities that are appropriate to be incorporated into the consolidation;
 - (b) establishes procedures for preparing the consolidation; and
 - (c) specifies minimum disclosures to be made in the consolidation.

Scope

- .03 **This chapter only applies to the National and provincial treasuries that are required to prepare consolidated financial statements in accordance with legislation. The scope of entities to be consolidated will be determined in accordance with the principles of this Chapter.**
- .04 The National Treasury is required by the Public Finance Management Act to prepare consolidated financial statements for the national government sector in accordance with generally recognised accounting practice. Similarly, provincial treasuries are required to prepare consolidated financial statements on behalf of the province. At present, a consolidation comprising of all departments and their controlled entities is not practicable due to a number of factors, including the different accounting bases currently applied in government³. This Chapter thus provides guidance on the entities to be included in the departmental consolidation in order to address these difficulties.

Definitions

- .05 ***The following terms are used in this Chapter with the meanings specified:***

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

Consolidating entity is the entity that undertakes the consolidation of other entities based on its legislative mandate to do so (for example, the National Treasury and provincial treasuries).

Economic entity (for the purpose of this Standard) means a designated group of entities comprising a consolidating entity and one or more reporting entities.

Terms defined in other chapters are used in this Chapter with the same meaning as in those other chapters.

Economic entity

- .06 The term “economic entity” is used in this chapter to define, for financial reporting purposes, a group of entities comprising the consolidating entity and any consolidated entities.

³ The Minister of Finance has exempted the National and Provincial Treasuries from preparing consolidated financial statements as envisaged by the PFMA.

Presentation and scope of the consolidated financial statements

- .07 The consolidating entity shall present consolidated financial statements for the economic entity, which for the purpose of this Standard comprises of:
- (a) all departments (including the consolidating entity) within the respective sphere of government;
 - (b) the revenue fund; and
 - (c) any government component, trading entity and or activity for which financial statements are prepared in accordance with this Standard; and
 - (d) Parliament or the provincial legislature.

The above are collectively referred to as “entities” in this Chapter.

Consolidation procedures

- .08 In preparing consolidated financial statements, the consolidating entity combines the financial statements of each entity line-by-line by adding like items of assets, liabilities, net assets, revenue and expenditure.
- .09 Cash balances and cash transactions between entities should be eliminated in full, to the extent that those transactions and balances have been fully recognised and / or recorded in the financial statements of the affected entities.
- .10 The consolidated financial statements shall be prepared using uniform accounting policies for like transactions and other events in similar circumstances.
- .11 If an entity within the economic entity uses accounting policies other than those adopted in the consolidated financial statements for like transactions and events in similar circumstances, appropriate adjustments are made to its financial statements in preparing the consolidated financial statements.

Consolidation disclosures

The following disclosures shall be made in the consolidated financial statements:

- (a) a list of all entities that have been designated to be within the economic entity; and
- (b) a list of entities that have been excluded from the consolidation together with the reasons why the entities have not been consolidated.

Comparison with the Standards of GRAP

While certain concepts and definitions in this Chapter may be drawn from the Standards of GRAP, significant differences exist primarily due to the modified cash basis of accounting and established departmental reporting practices. These differences render a comparison impractical.

Chapter 19: Transfer Of Functions

Chapter content

Objective	204
Scope	204
Definitions.....	204
Function.....	205
Identifying the acquirer and the transferor	206
Determining the transfer date	206
Assets acquired or transferred and liabilities assumed or relinquished.....	207
Accounting by the Acquirer	207
Accounting by the Transferor	209
Disclosure.....	209
Comparison with GRAP 105 on Transfer of Functions Between Entities Under Common Control....	211

This Chapter formed part of the Standard in 2019 and has since then been considered for improvement as part of the amendments process conducted by the National Treasury's Office of the Accountant-General, more specifically:

- Amendments to the Modified Cash Standard (Issued 31 March 2022); and
- Amendments to the Modified Cash Standard (Issued 31 March 2025).

Objective

- .01 The objective of this Chapter is to establish accounting principles for the acquirer and transferor in a transfer of functions where the department is the acquirer or the transferor.

Scope

- .02 **An acquirer and a transferor that prepares and presents financial statements under the modified cash basis of accounting shall apply this Chapter to a transaction or event that meets the definition of a transfer of functions.**
- .03 This Chapter does not apply to:
- (a) transfers of individual or groups of assets and/or liabilities that do not meet the definition of a transfer of functions (see the applicable Chapter of this Standard); and
 - (b) a merger (see Chapter 20 on *Mergers*).
- .04 Transfers of individual or groups of assets and/or liabilities are excluded from the scope of this Chapter as these arrangements result in the acquisition or transfer of an asset or a group of assets and/or the assumption or transfer of a liability or a group of liabilities by an entity rather than the transfer of functions. For example, when a national roads agency takes control of a provincial road from a provincial department, it is a transfer of individual assets.
- .05 If no acquirer can be identified in the transaction or event, Chapter 20 should be applied. A merger is the establishment of a new combined entity in which none of the former entities obtains control over any other and no acquirer can be identified. A transaction or event in which an acquirer can be identified, and that occurs between entities falls within the scope of this Chapter. A transfer of functions between departments is a reorganisation and/or reallocation of functions between departments.

Definitions

- .06 ***The following terms are used in this Chapter with the meanings specified:***

An acquirer is the department that obtains control of the acquiree or transferor.

Carrying amount of an asset or liability is the amount at which an asset or liability is recognised in the statement of financial position or recorded in the notes to the financial statements.

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

A function is an integrated set of activities that is capable of being conducted and managed for purposes of achieving a department's objectives, either by providing economic benefits or service potential.

Transfer date is the date on which the acquirer obtains control of the function and the transferor loses control of that function.

A transfer of functions is the reorganisation and/or the re-allocation of functions between departments by transferring functions between departments or into another department.

A **transferor** is the department that relinquishes control of a function.

Terms defined in other chapters are used in this Chapter with the same meaning as in those other chapters.

Function

- .07 A function is an integrated set of activities that is capable of being conducted and managed for purposes of achieving a department's objectives, either by providing economic benefits or service potential. A function consists of inputs and processes applied to those inputs that have the ability to create outputs. A function can either be a part or a portion of a department or can consist of the whole department. Although functions may have outputs, outputs are not required to qualify as a function. The three elements of a function are defined as follows:

Input: Any resource that creates, or has the ability to create, outputs when one or more processes are applied to it. Examples include capital assets (including intangible assets or rights to use capital assets), intellectual property, and the ability to obtain access to necessary materials or rights and employees.

Process: Any system, standard, protocol, convention or rule that when applied to an input or inputs, creates or has the ability to create outputs. Examples include strategic management processes, operational processes and resource management processes. These processes typically are documented, but an organised workforce having the necessary skills and experience following rules and conventions may provide the necessary processes that are capable of being applied to inputs to create outputs.

Output: The result of inputs and processes applied to achieve and improve efficiency. This may be in the form of achieving service delivery objectives, or the delivery of goods and/or services.

- .08 However, to be capable of being conducted and managed for the purposes defined, a function requires two essential elements - inputs and processes applied to those inputs, which together may or will be used to create outputs. However, a function need not include all of the inputs or processes that will be used in operating that function if entities are capable of acquiring the function and continuing to produce outputs, for example, by integrating the function with their own inputs and processes.
- .09 The nature of the elements of a function varies by the structure of a department's operations (activities), including the entity's stage of development. Established functions often have many different types of inputs, processes and outputs, whereas new functions often have few inputs and processes and sometimes only a single output. Nearly all functions also have liabilities, but a function need not have liabilities.
- .10 A function in the development stage might not have outputs. If not, other factors should be considered to determine whether the integrated set of activities meets the definition of a function. Those factors include, but are not limited to, whether the function:
- (a) has begun planned principal activities;
 - (b) has employees, intellectual property and other inputs and processes that could be applied to those inputs;
 - (c) is pursuing a plan to produce outputs; or
 - (d) will be able to obtain access to economic benefits or service potential.

Not all of those factors need to be present in the development stage to meet the definition of a function.

Identifying the acquirer and the transferor

- .11 **For each transfer of functions between departments an acquirer and transferor shall be identified.**
- .12 The terms and conditions of a transfer of functions undertaken between departments are set out in a binding arrangement. This arrangement may be evidenced in a number of ways and may encompass a formal written agreement between the departments, legislation passed in parliament or a provincial legislature, cabinet decision, ministerial order, regulation or a notice or other official means.
- .13 In a transfer of functions, one of the parties to the transaction or event should be identified as the acquirer. The binding arrangement governing the terms and conditions of a transfer of functions may identify which entity to the transaction or event is the transferor(s) and which entity is the acquirer. Where the binding arrangement does not clearly identify the acquirer or the transferor, the behaviour or actions of the entities may indicate which entity is the acquirer and which entity is the transferor. For example, if the department of health used to feed primary school children on a daily basis and it subsequently ceases to do so following a transfer of the programme to the department of education, this is a clear indication that the department of health is the transferor and the department of education is the acquirer. Additional evidence may be that the transferor no longer receives funding from the fiscus to carry out certain activities.
- .14 In a transfer of functions effected primarily by transferring cash or other assets (where applicable) or by incurring liabilities, the acquirer is usually the department that transfers the cash or other assets (where applicable) or incurs the liabilities.
- .15 In a transfer of functions involving more than one department, one of the departments that existed before the transaction or event may be identified as the acquirer on the basis of available evidence. For example, if the management of one of the departments involved in the transfer of functions dominates the selection of the management team in the newly established department, the dominant department is usually the acquirer.
- .16 Determining the acquirer shall include a consideration of, amongst other things, which of the departments involved in the transfer of functions initiated the transaction or event, the relative size of the department, as well as whether the assets or revenue of one of the departments involved in the transaction or event significantly exceed those of the other departments. If no acquirer can be identified, the transaction or event should be accounted for in terms of the Chapter 20 on *Mergers*.

Determining the transfer date

- .17 **The acquirer and the transferor shall identify the transfer date, which is the date on which the acquirer obtains control and the transferor loses control of that function.**
- .18 The binding arrangement governing the terms and conditions of a transfer of functions between departments may specify that the transaction or event is effective from a specific date. The date on which the acquirer obtains control of the functions is the date on which the acquirer transfers the consideration (if any), acquires the assets and assumes the liabilities of the transferor as identified in the binding arrangement. However, the acquirer may obtain control on a date that is either earlier or later than the date on which the assets and liabilities are transferred by the transferor, or specified in

the binding arrangement. For example, legislation passed in Parliament on 1 April 20X9 requires department A to take over the functions of department B. Both departments are within the same province. A directive is issued stating that the effective date of the transfer is 1 June 20X9. Department A however only obtains control of the assets and liabilities on 1 July 20X9 through a memorandum of understanding drawn up between the two departments. As department A can only use or otherwise benefit from the transfer of functions in pursuit of its objectives, or exclude or otherwise regulate the access of others to those benefits from 1 July 20X9, the transaction or event should be accounted for as from 1 July 20X9. The acquirer should consider all relevant facts and circumstances in identifying the transfer date.

- .19 The fact that a binding arrangement exists creates an obligation for either one or both of the parties to act in order to fulfil the terms and conditions of the arrangement. This means that under the binding arrangement, the acquirer has an enforceable claim over the transferor either, to relinquish control of the department, or over the assets and liabilities of the function to be transferred.

Assets acquired or transferred and liabilities assumed or relinquished

- .20 **The recognition/recording of assets and liabilities by the acquirer, and the derecognition/removal of assets and liabilities by the transferor is subject to the conditions specified in the paragraphs below.**

Criteria for the acquirer and the transferor

- .21 The assets and liabilities that qualify for recognition/recording by the acquirer or derecognition/removal by the transferor in a transfer of functions between departments are normally governed by the terms and conditions of the binding arrangement.

Criteria for the acquirer

- .22 The assets acquired and liabilities assumed that qualify for recognition and / or recording as set out in the binding arrangement must meet the definitions of assets and liabilities and the recognition and recording criteria in Chapter 2 on *Principles and Concepts*.
- .23 Costs that the acquirer expects, but which the acquirer is not obliged to incur in the future to effect its plan to exit an activity of the transferor or to terminate the employment of, or relocate the transferor's employees, shall not be accounted for as part of the liabilities at the transfer date. The acquirer shall not recognise those costs as part of a transfer of functions. Instead, the acquirer recognises these costs in its financial statements after the transfer has occurred, in accordance with the applicable Chapter of this Standard.

Accounting by the Acquirer

Initial recognition/recording and measurement

- .24 **As of the transfer date, the acquirer shall recognise the purchase consideration paid (if any) to the transferor and recognise/record all the assets acquired and liabilities assumed in a transfer of functions. The assets acquired and liabilities assumed shall be measured at their carrying amounts.**
- .25 The carrying amount of an asset acquired, or a liability assumed is the amount at which the asset or

liability is recognised/recorded by the transferor in its statement of financial position or notes as of the transfer date.

- .26 The consideration paid by the acquirer can be in the form of cash, cash equivalents or other assets. If the consideration paid is in the form of other assets, the acquirer shall de-recognise/remove such assets on the transfer date at their carrying amounts, i.e. the amount at which the asset is recognised/recorded by the acquirer in its statement of financial position or notes as of the transfer date.

Measurement period

- .27 **If the initial accounting for a transfer of functions is incomplete by the end of the reporting period in which the transfer occurs, the acquirer shall report in its financial statements that the accounting is incomplete. During the measurement period, the acquirer shall retrospectively adjust any amounts recognised/recorded at the transfer date to reflect new information obtained about facts and circumstances that existed as of the transfer date and, if known, would have affected the measurement of the amounts recognised/recorded as of that date. The measurement period ends as soon as the acquirer receives the information it was seeking about facts and circumstances that existed as of the transfer date or learns that more information is not obtainable. However, the measurement period shall not exceed two years from the transfer date.**
- .28 The measurement period is the period after the transfer date during which the acquirer may adjust amounts recognised/recorded for a transfer of functions. The measurement period provides the acquirer with reasonable time to obtain the information necessary to identify and measure the following as of the transfer date in accordance with the requirements of this Standard:
- (a) the assets acquired and liabilities assumed;
 - (b) the consideration transferred, if any, for the transferor; and
 - (c) the resulting excess of the purchase consideration paid (if any) over the assets acquired and liabilities assumed.
- .29 The acquirer shall consider all relevant factors in determining whether information obtained after the transfer date should result in an adjustment to the amounts recognised/recorded or whether that information results from events that occurred after the transfer date. Relevant factors include the date when additional information is obtained and whether the acquirer can identify a reason for a change to the amounts. Information that is obtained shortly after the transfer date is more likely to reflect circumstances that existed at the transfer date than is information obtained several months later.
- .30 During the measurement period, the acquirer shall recognise/record adjustments to the amounts as if the accounting for the transfer of functions had been completed at the transfer date. Thus, the acquirer shall revise comparative information for prior periods presented in financial statements as needed.
- .31 After the measurement period ends, the acquirer shall revise the accounting for a transfer of functions only to correct an error in accordance with Chapter 4 on *Accounting Policies, Estimates and Errors*.

Acquisition related costs

- .32 Acquisition-related costs are costs that the acquirer incurs to affect the transfer of functions. These costs include advisory, legal, accounting and other professional or consulting fees, general administrative costs, and costs of registering and issuing debt and equity securities (if applicable). The acquirer shall account for acquisition-related costs as expenses in accordance with Chapter 8 on *Expenditure*.

Subsequent measurement

- .33 The acquirer shall subsequently measure any assets acquired and any liabilities assumed in a transfer of functions in accordance with the applicable Chapter of this Standard.
- .34 At the transfer date, the acquirer shall classify or designate the assets acquired and liabilities assumed as necessary to apply other chapters of this Standard subsequently. The acquirer shall make those classifications or designations on the basis of the terms of the binding arrangement, economic conditions, its operating or accounting policies and other relevant conditions that exist at the transfer date.
- .35 An exception to the requirement in paragraph .34 to the classification or designation of the assets acquired and liabilities assumed on the transfer date, is that the acquirer shall classify lease contracts as either operating or finance leases on the basis of the contractual terms and other factors at the inception of the contract (or, if the terms of the contract have been modified in a manner that would change its classification, at the date of that modification, which might be the transfer date).

Accounting by the Transferor

Derecognition/removal of assets transferred and liabilities relinquished

- .36 As of the transfer date, the transferor shall recognise the purchase consideration received (if any) from the acquirer and derecognise/remove from its financial statements, all the assets transferred and liabilities relinquished in a transfer of functions at their carrying amounts.
- .37 Until the transfer date, the transferor shall continue to measure these assets and liabilities in accordance with applicable Chapter of this Standard.

Disclosure

- .38 The acquirer and transferor shall disclose information that enables users of its financial statements to evaluate the nature and financial effect of a transfer of functions that occurs either:
 - (a) during the current reporting period; or
 - (b) after the end of the reporting period but before the financial statements are authorised for issue.
- .39 To the extent that a department has entered into an arrangement for the transfer of functions, the departments shall disclose, as part of the secondary financial information, the following information to enable the users to determine the impact of the transfer of functions on the department:
 - (a) the name of the departments involved in the transfer of functions, a brief description of the functions transferred and the reason for undertaking the transaction or event;
 - (b) details of the assets acquired or transferred and liabilities assumed or relinquished, as a result of the transfer or receipt of functions;
 - (c) a reference to the proclamation or declaration giving effect to the transfer or receipt of functions along with the transfer date; and

(d) an indication as to whether there was an agreement drawn up, and if so provide a description of roles, responsibilities and accountability arrangements.

- .40 The acquirer shall disclose the following information for each material transfer of functions or in the aggregate for individually immaterial transfer of functions that are material collectively if the initial accounting for a transfer of functions is incomplete (see paragraph .27) for particular assets, liabilities, or any consideration and the amounts recognised/recorded in the financial statements for the transfer of functions:
- (a) the reasons why the initial accounting for the transfer of functions is incomplete;
 - (b) the assets, liabilities, or any consideration for which the initial accounting is incomplete;
 - (c) the nature and amount of any measurement period adjustments recognised/recorded during the reporting period in accordance with paragraph .30.

Acquirer

- .41 The acquirer shall disclose the following for each transfer of functions that occurred during the reporting period:
- (a) for each affected line item in the financial statements, the value of the assets acquired and liabilities assumed in a transfer of functions;
 - (b) the difference between the carrying amounts of the assets acquired, and the liabilities assumed;
 - (c) additional contingent liabilities and contingent assets disclosed attributable to a transfer of functions; and
 - (d) revenue and expenditure attributable to a transfer of functions subsequent to its transfer.
- .42 The disclosures in paragraph .41 will only be included in the financial statements in the financial year when the transfer of functions occurs. Financial statements of subsequent periods need not to repeat these disclosures.

Transferor

- .43 The transferor shall disclose the following, for each transfer of functions that occurred during the reporting period:
- (a) for each affected line item in the financial statements, the carrying amount of the assets transferred and the liabilities relinquished;
 - (b) the difference between the carrying amounts of the assets transferred, and the liabilities relinquished from the acquirer, as a separate line item in net assets.
- .44 The disclosures in paragraph .43 will only be included in the financial statements in the financial year when the transfer of functions occurs. Financial statements of subsequent periods need not to repeat these disclosures.

Comparison with GRAP 105 on Transfer of Functions Between Entities Under Common Control

Chapter 19 is primarily drawn from GRAP 105. The main differences between this Chapter and GRAP 105 are as follows:

- This Chapter applies to all transfers of functions whilst GRAP 105 only applies to transfers between entities under common control.
- This Chapter caters for the recognition and recording of assets and/or liabilities received in a transfer of functions.
- Examples have been amended to make them more relevant to departments.
- The Chapter uses different terminology, in certain instances, from GRAP 105. The most significant examples include the use of 'department', and 'chapter'. The equivalent terms in GRAP 105 are 'entity', and 'standard' respectively.

Chapter 20: Mergers

Chapter content

Objective	214
Scope	214
Definitions.....	214
Mergers	215
Identifying the combined department and the combining departments	215
Determining the merger date	216
Assets acquired or transferred and/or liabilities assumed or derecognised/removed	216
Accounting by the Combined Department	217
Accounting by the Combining Departments.....	218
Disclosure.....	218
Comparison with GRAP 107 on Mergers	221

This Chapter formed part of the Standard in 2019 and has since then been considered for improvement as part of the amendments process conducted by the National Treasury's Office of the Accountant-General, more specifically:

- Amendments to the Modified Cash Standard (Issued 31 March 2022); and
- Amendments to the Modified Cash Standard (Issued 31 March 2025).

Objective

- .01 The objective of this Chapter is to establish accounting principles for the combined department and combining departments in a merger.

Scope

- .02 **A combined department and combining departments that prepares and presents financial statements under the modified cash basis of accounting shall apply this Chapter to a transaction or event that meets the definition of a merger where no acquirer can be identified.**
- .03 This Chapter does not apply to a transfer of functions between departments (see the Chapter 19 on *Transfer of Functions*).
- .04 A transaction or event for where no acquirer can be identified falls within the scope of this Chapter. A merger is the establishment of a new combined department in which none of the former departments obtains control over any other and no acquirer can be identified. Determining whether an acquirer can be identified includes a consideration of, amongst other things, which of the combining departments initiated the transaction or event, the relative size of the combining departments, as well as whether the assets or revenue of one of the departments involved in the transaction or event significantly exceed those of the other departments. A merger can either involve the combination of two or more department's in which one of the combining departments continue to become the new department, or a new department is established from the combining department. The concept of control and a function is not relevant in a transaction or event that meets the definition of a merger. A transaction or event in which an acquirer can be identified and that involves control should be accounted for in terms of Chapter 19.

Definitions

- .05 ***The following terms are used in this Chapter with the meanings specified:***

Carrying amount of an asset or liability is the amount at which an asset or liability is recognised in the statement of financial position or recorded in the notes to the financial statements.

Combined department is a new department formed from the combination of two or more departments.

Combining departments (for purposes of this Chapter) are the departments that are combined for the mutual sharing of risks and benefits in a merger.

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

A function is an integrated set of activities that is capable of being conducted and managed for purposes of achieving a department's objectives, either by providing economic benefits or service potential.

A merger is the establishment of a new combined entity in which none of the former departments obtains control over any other and no acquirer can be identified.

Merger date is the date on which departments are combined for the mutual sharing of risks and benefits and when the assets and liabilities are transferred to the combined department.

Terms defined in other chapters are used in this Chapter with the same meaning as in those other chapters.

Mergers

- .06 A merger is the establishment of a new combined department in which none of the former departments obtain control over any other and no acquirer can be identified. As no acquirer can be identified, a merger does not result in a department having or obtaining control over any of the departments that are involved in the transaction or event, as the combining departments are not controlled departments of each other, either before or after the merger.
- .07 The following criteria indicate that a transaction or event should be accounted for as a merger:
- (a) **No acquirer:** No department in the transaction can be identified as the acquirer.
 - (b) **No control:** No party acquires control as no party is seen to be dominant. All parties to the transaction or event combine their relative risks and benefits in the combined department and maintain or preserve their decision-making powers.
 - (c) **Representation by management:** All parties to the transaction or event, as represented by management, participate in establishing the management structure of the combined department, and in selecting the management personnel. Such decisions are made on the basis of consensus between the parties to the transaction or event.
 - (d) **Size of departments involved:** The relative sizes of the combining departments are not so disparate that one department dominates the combined department by virtue of its relative size. As such, the relative size of a department is not as pervasive as the other two indicators in this paragraph in determining whether an arrangement constitutes a merger.

Identifying the combined department and the combining departments

- .08 **For each merger a combined department and combining departments shall be identified.**
- .09 The terms and conditions of a merger are set out in a binding arrangement. This arrangement may be evidenced in a number of ways and may encompass a formal written agreement between the departments, legislation passed in parliament or a provincial legislature, cabinet decision, ministerial order, regulation or a notice or other official means. The binding arrangement usually sets out which departments are to be combined as a result of the merger, and identifies the new department after the merger.
- .10 A merger involves a transaction or event where no acquirer can be identified. If the binding arrangement governing the terms and conditions of the transaction or event identifies which department to the transaction or event is the acquirer, and which department is the transferor, the transaction or event should be accounted for in terms of Chapter 19.
- .11 Determining the acquirer shall include a consideration of, amongst other things, which of the combining departments initiated the transaction or event, the relative size of the combining departments, as well as whether the assets or revenue of one of the departments involved in the transaction or event significantly exceed those of the other departments.

Determining the merger date

- .12 **The combined department and the combining departments shall identify the merger date, which is the date on which the new department obtains control of the assets and liabilities and the combining departments loses control of their assets and liabilities**
- .13 The binding arrangement governing the terms and conditions of a merger may specify that the transaction or event is effective from a specific date. The merger date is the date on which the combining departments transfer the assets and liabilities to the combined department as identified in the binding arrangement. However, the combined department may obtain control of the assets and liabilities on a date that is either earlier or later than the date on which the assets and liabilities are transferred by the combining departments, or specified in the binding arrangement. For example, a Regulation passed on 1 December 20X0 requires three provincial departments to transfer all their functions into a new provincial department. A directive is issued stating that the effective date of the transfer is 1 April 20X1. The new provincial department, however, only obtains control of the assets and liabilities on 1 May 20X1 through a memorandum of understanding. As the new provincial department can only use or otherwise benefit from the combination in pursuit of its objectives, or exclude or otherwise regulate the access of others to those benefits from 1 May 20X1, the transaction or event should be accounted for as from 1 May 20X1. All relevant facts and circumstances should be considered in identifying the merger date.
- .14 The fact that a binding arrangement exists creates an obligation for either one or all of the parties to act in order to fulfill the terms and conditions of the arrangement. This means that under the binding arrangement, the combined department has an enforceable claim over the assets and liabilities of the combining departments that are to be combined in terms of the merger. This indicates that the merger is probable and will occur in line with the terms and conditions of the binding arrangement.

Assets acquired or transferred and/or liabilities assumed or derecognised/removed

- .15 **The recognition/recording of assets and liabilities by the combined department, and the transfer and derecognition/removal of assets and liabilities by the combining departments are subject to the conditions specified in the paragraphs below.**

Criteria for the combined department and the combining departments

- .16 The assets and liabilities that qualify for recognition/recording by the combined department or transfer and derecognition/removal by the combining departments in a merger are normally governed by the terms and conditions of the binding arrangement. Such assets and liabilities must be part of what had been agreed in terms of the binding arrangement, rather than the result of separate transactions

Criteria for the combined department

- .17 The assets and liabilities that qualify for recognition/recording as set out in the binding arrangement must meet the definitions of assets and liabilities in Chapter 2 on *Principles and Concepts* and the criteria in the applicable Chapters of this Standard at the merger date.
- .18 Costs that the combined department expects but which the department is not obliged to incur in the future to effect its plan to exit an activity of the combining departments or to terminate the employment of, or relocate the combining departments' employees, shall not be accounted for as part of the liabilities at the merger date. The combined department shall not account for those costs as part of a merger.

Instead, the combined department accounts for these costs in its financial statements after the merger has occurred, in accordance with the applicable Chapter of this Standard.

Accounting by the Combined Department

Initial recognition/recording and measurement

- .19 **As of the merger date, the combined department shall recognise/record all the assets acquired and liabilities assumed. The assets acquired and liabilities assumed shall be measured at their carrying amounts.**
- .20 The carrying amount of an asset acquired or a liability assumed is the amount at which the asset or liability is recognised/recorded by the combining departments in their statements of financial position or notes at the merger date.

Measurement period

- .21 **If the initial accounting for a merger is incomplete by the end of the reporting period in which the merger occurs, the combined entity shall report in its financial statements that the accounting is incomplete. During the measurement period, the combined entity shall retrospectively adjust the amounts recognised / recorded at the merger date to reflect new information obtained about facts and circumstances that existed as of the merger date and, if known, would have affected the measurement of the amounts recognised / recorded as of that date. The measurement period ends as soon as the combined entity receives the information it was seeking about facts and circumstances that existed as of the merger date or learns that more information is not obtainable. However, the measurement period shall not exceed two years from the merger date.**
- .22 The measurement period is the period after the merger date during which the combined entity may adjust the amounts recognised / recorded for a merger. The measurement period provides the combined entity with reasonable time to obtain the information necessary to identify and measure the following as of the merger date in accordance with the requirements of this Standard:
 - (a) the assets acquired and liabilities assumed;
 - (b) the consideration transferred, if any, for the combining entities; and
 - (c) the resulting excess of the purchase consideration paid (if any) over the assets acquired and liabilities assumed.
- .23 The combined entity shall consider all relevant factors in determining whether information obtained after the merger date should result in an adjustment to the amounts recognised / recorded or whether that information results from events that occurred after the merger date. Relevant factors include the date when additional information is obtained and whether the combined entity can identify a reason for a change to the amounts. Information that is obtained shortly after the merger date is more likely to reflect circumstances that existed at the merger date than is information obtained several months later.
- .24 During the measurement period, the combined entity shall recognize / record adjustments to the amounts as if the accounting for the merger had been completed at the merger date. Thus, the combined entity shall revise comparative information for prior periods presented in financial statements as needed.
- .25 After the measurement period ends, the combined entity shall revise the accounting for a merger only

to correct an error in accordance with the Chapter 4 on *Accounting Policies, Estimates and Errors*.

Expenditure incurred in relation to the merger

- .26 Expenditures incurred in relation to the merger are costs that the combined department incurs to effect the merger. These costs include advisory, legal, accounting and other professional or consulting fees, general administrative costs, costs to furnish information to owners of the combining departments, and salaries and other expenses related to services of employees involved in achieving the merger. It also includes costs or losses incurred in combining the assets and liabilities of the combining departments. The combined department shall account for such expenditure as expenses in accordance with the Chapter 8 on *Expenditure*.

Subsequent measurement

- .27 **The combined department shall subsequently measure any assets acquired and any liabilities assumed in a merger in accordance with the applicable Chapter of this Standard.**
- .28 **At the merger date, the combined department shall classify or designate the assets acquired and liabilities assumed as necessary to apply other Chapters of this Standard subsequently. The combined department shall make those classifications or designations on the basis of the terms of the binding arrangement, economic conditions, the operating or accounting policies and other relevant conditions as these exist at the merger date.**
- .29 An exception to the requirement in paragraph .28 to the classification or designation of the assets acquired and liabilities assumed on the merger date, is that the combined department shall classify lease contracts as either operating leases or finance leases in accordance with Chapter 13 on *Leases*.
- .30 **The financial statements of the combined department shall be prepared using uniform accounting policies for similar transactions and other events or similar circumstances.**
- .31 Since the merger results in a single department, a single uniform set of accounting policies is adopted by the combined department. Therefore, the combined department recognises the assets acquired and the liabilities assumed of the combining departments on the merger date at their existing carrying amounts and subsequently adjust it only as a result of conforming with the combined department's accounting policies.

Accounting by the Combining Departments

Assets transferred and liabilities de-recognised/removed

- .32 **As of the merger date, the combining departments shall transfer and derecognise / remove from its financial statements, all the assets and liabilities derecognised / removed at their carrying amounts.**
- .33 Until the merger date, the combining departments shall continue to measure these assets and liabilities in accordance with applicable Chapter of this Standard.

Disclosure

- .34 **The combined department and the combining departments shall disclose information that**

enables users of its financial statements to evaluate the nature and financial effect of a merger that occurs either:

- (a) during the current reporting period; or
- (b) after the end of the reporting period but before the financial statements are authorised for issue.

.35 The combined department and combining departments shall disclose the following for a merger that occurred during the reporting period:

- (a) the name of the departments involved in the merger, a brief description of the merger and the reason for undertaking the transaction or event;
- (b) a reference to the proclamation or declaration giving effect to the merger along with the merger date; and
- (c) an indication as to whether there was an agreement drawn up, and if so provide a description of roles, responsibilities and accountability arrangements.

Combined department

.36 The combined department should not present comparative information in the first reporting period

.37 The combined department shall disclose the following for a merger that occurred during the reporting period:

- (a) for each affected line item in the financial statements, the value of the assets acquired and liabilities assumed in a merger;
- (b) additional contingent liabilities and contingent assets assumed or acquired in the merger; and
- (c) the period for which the results of the merger are included in the financial statements of the combined departments.

.38 The disclosures in paragraph .37 will only be included in the financial statements in the financial year when the merger occurs. Financial statements of subsequent periods need not to repeat these disclosures.

.39 The combined entity shall disclose the following information for each material merger or in the aggregate for individually immaterial mergers that are material collectively if the initial accounting for a merger is incomplete (see paragraph .21) for particular assets, liabilities, or any consideration and the amounts recognised / recorded in the financial statements for the merger:

- (a) the reasons why the initial accounting for the merger is incomplete;
- (b) the assets, liabilities, or any consideration for which the initial accounting is incomplete;
- (c) the nature and amount of any measurement period adjustments recognised / recorded during the reporting period in accordance with paragraph .24.

Combining departments

.40 Comparative information shall not be restated or adjusted by the combining departments.

.41 The combining departments shall disclose the following for the merger that occurred during the

reporting period:

(a) for each asset transferred and liability derecognized / removed, the carrying amount of the assets transferred and the liabilities derecognized / removed.

.42 The disclosures in paragraph .41 will only be included in the financial statements in the financial year when the merger occurs. Financial statements of subsequent periods need not repeat these disclosures.

Comparison with GRAP 107 on Mergers

Chapter 20 is primarily drawn from GRAP 107. The main differences between this Chapter and GRAP 107 are as follows:

- This Chapter caters for the recognition and recording as well as the derecognition and removal of assets and/or liabilities received in a transfer of functions.
- Examples have been amended to make them more relevant to departments.
- The Chapter uses different terminology, in certain instances, from GRAP 107. The most significant examples include the use of 'department', and 'chapter'. The equivalent terms in GRAP 107 are 'entity', and 'standard' respectively.

Chapter 21: The Effects Of Changes In Foreign Exchange Rates

Chapter content

Objective	224
Scope	224
Definitions.....	225
Functional currency.....	225
Monetary items.....	226
Summary of approach required by this Chapter	226
Reporting foreign currency transactions in the functional currency	227
Initial recognition	227
Reporting at subsequent reporting dates.....	227
Recognition of exchange differences.....	228
Change in functional currency	228
Use of a presentation currency other than the functional currency	229
Translation to the presentation currency	229
Disclosure.....	229
Comparison with GRAP 4 on The Effects of Changes in Foreign Exchange Rates.....	231

This Chapter forms part of the Standard effective in 2026.
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Objective

- .01 A department may carry on foreign activities in two ways. It may have transactions in foreign currencies or it may have foreign operations. In addition, a department may present its financial statements in a foreign currency, for example, a foreign donor may require a department to present its financial statements in the donor's functional currency. The department should apply this Chapter in the absence of a donor's specific requirements. The objective of this Chapter is to prescribe how to include foreign currency transactions and foreign operations in the financial statements of a department and how to translate financial statements into a presentation currency.
- .02 The principal issues are which exchange rate(s) to use and how to report the effects of changes in exchange rates in the financial statements.

Scope

- .03 **A department that prepares and presents financial statements under the modified cash basis of accounting shall apply this Chapter:**
 - (a) **in accounting for transactions and balances in foreign currencies, except for those derivative transactions and balances that are within the scope of Chapter 10 on *Treasury Financial Instruments*; and**
 - (b) **in translating an entity's financial performance and financial position into a presentation currency.**
- .04 Chapter 10 applies to many foreign currency derivatives and, accordingly, these are excluded from the scope of this Chapter. However, those foreign currency derivatives that are not within the scope of Chapter 10 (e.g. some foreign currency derivatives that are embedded in other contracts) are within the scope of this Chapter. In addition, this Chapter applies when a department translates amounts relating to derivatives from its functional currency to its presentation currency.
- .05 This Chapter applies to the presentation of a department's financial statements in a foreign currency and sets out requirements for the resulting financial statements to be described as complying with this Standard. For translations of financial information into a foreign currency that do not meet these requirements, this Chapter specifies information to be disclosed.
- .06 This Chapter does not apply to the presentation in a cash flow statement of cash flows arising from transactions in a foreign currency or to the translation of cash flows of a foreign operation (see the Chapter on *Cash Flow Statements* (Chapter 6)).

Definitions

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

Closing rate is the spot exchange rate at the reporting date.

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

Exchange rate is the ratio of exchange for two currencies.

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

Foreign operation is a branch of a reporting entity, the activities of which are based or conducted in a country or currency other than those of the reporting entity.

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

Monetary items are units of currency held and assets and liabilities to be received or paid in a fixed or determinable number of units of currency.

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

Spot exchange rate is the exchange rate for immediate delivery.

Terms defined in other chapters are used in this Chapter with the same meaning as in those other chapters.

Functional currency

.08 The primary economic environment in which a department operates is normally the one in which it primarily generates and expends cash. A department considers the following factors in determining its functional currency:

- (a) the currency:
 - (i) that revenue is raised from, such as taxes, appropriations and fines;
 - (ii) that mainly influences sales prices for goods and services (this will often be the currency in which sales prices for its goods and services are denominated and settled);
 - (iii) of the country whose competitive forces and regulations mainly determine the sales prices of its goods and services; and
- (b) the currency that mainly influences labour, material and other costs of providing goods or services (this will often be the currency in which such costs are denominated and settled).

.09 The following factors may also provide evidence of a department's functional currency:

- (a) the currency in which funds from financing activities (i.e. issuing debt and equity instruments) are generated; and
- (b) the currency in which receipts from operating activities are usually retained.

.10 The following additional factors are considered in determining the functional currency of a foreign operation, and whether its functional currency is the same as that of the reporting entity (the reporting entity, in this context, being the entity that has the foreign operation as its branch):

- (a) whether the activities of the foreign operation are carried out as an extension of the reporting entity, rather than being carried out with a significant degree of autonomy. An example of the former is when the Department of Defence has a number of overseas bases that conduct activities on behalf of national government. The defence bases might conduct their activities substantially in the functional currency of the reporting entity. For example, military personnel may be paid in the functional currency and receive only a small allowance in local currency. Purchases of supplies and equipment might be largely obtained via the reporting entity with purchases in local currency being kept to a minimum. Another example would be an overseas witness protection programme that operates under the management and direction of the National Prosecuting Authority. In contrast, a foreign operation with a significant degree of autonomy may accumulate cash and other monetary items, incur expenses, generate revenue and perhaps arrange borrowings, all substantially in its local currency;
 - (b) whether transactions with the reporting entity are a high or a low proportion of the foreign operation's activities;
 - (c) whether cash flows from the activities of the foreign operation directly affect the cash flows of the reporting entity and are readily available for remittance to it; and
 - (d) whether cash flows from the activities of the foreign operation are sufficient to service existing and normally expected debt obligations without funds being made available by the reporting entity.
- .11 When the above indicators are mixed and the functional currency is not obvious, management uses its judgement to determine the functional currency that most faithfully represents the economic effects of the underlying transactions, events and conditions. As part of this approach, management gives priority to the primary indicators in paragraph .08 before considering the indicators in paragraphs .09 and .10, which are designed to provide additional supporting evidence to determine a department's functional currency.
- .12 A department's functional currency reflects the underlying transactions, events and conditions that are relevant to it. Accordingly, once determined, the functional currency is not changed unless there is a change in those underlying transactions, events and conditions.

Monetary items

- .13 The essential feature of a monetary item is a right to receive (or an obligation to deliver) a fixed or determinable number of units of currency. Examples include payables for child support grants and employee benefits to be paid in cash; provisions that are to be settled in cash; and cash dividends or similar distributions that are recognised as a liability. Conversely, the essential feature of a non-monetary item is the absence of a right to receive (or an obligation to deliver) a fixed or determinable number of units of currency. Examples include amounts prepaid for goods and services (e.g. prepaid rent); intangible capital assets; inventories; tangible capital assets; and provisions that are to be settled by the delivery of a non-monetary asset.

Summary of the approach required by this Standard Chapter

- .14 In preparing financial statements, a department and a foreign operation (such as a branch) - determines its functional currency in accordance with paragraphs .08 to .12. The department translates foreign currency items into its functional currency and reports the effects of such translation in accordance with paragraphs .17 to .30.

- .15 Many reporting entities comprise a number of individual entities (e.g. an economic entity is made up of a controlling entity and one or more controlled entities). Various types of entities, whether members of an economic entity or otherwise, may have investments in associates or joint arrangements. They may also have branches. It is necessary for the financial performance and financial position of each individual entity included in the reporting entity to be translated into the currency in which the reporting entity presents its financial statements. This Chapter permits the presentation currency of a reporting entity to be any currency (or currencies). The financial performance and financial position of any individual entity within the reporting entity whose functional currency differs from the presentation currency are translated in accordance with paragraphs .31 to .35.
- .16 This Standard also permits a stand-alone entity preparing financial statements or an entity preparing separate financial statements in accordance with this Standard to present its financial statements in any currency (or currencies). If the entity's presentation currency differs from its functional currency, its financial performance and financial position are also translated into the presentation currency in accordance with paragraphs .31 to .35.

Reporting foreign currency transactions in the functional currency

Initial recognition

- .17 A foreign currency transaction is a transaction that is denominated or requires settlement in a foreign currency, including transactions arising when a department:
- (a) buys or sells goods or services whose price is denominated in a foreign currency; or
 - (b) otherwise acquires or disposes of assets, or incurs or settles liabilities, denominated in a foreign currency.
- .18 **A foreign currency transaction shall be recorded, on initial recognition or recording in the functional currency, by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction.**
- .19 The date of a transaction is the date on which the transaction first qualifies for recognition or recording in accordance with this Standard. For practical reasons, a rate that approximates the actual rate at the date of the transaction is often used, for example, an average rate for a week or a month might be used for all transactions in each foreign currency occurring during that period. However, if exchange rates fluctuate significantly, the use of the average rate for a period is inappropriate.
- .20 Exchange rate changes may have an impact on cash or cash equivalents held or due in a foreign currency. The presentation of such exchange differences is dealt with in Chapter 6. Although these changes are not cash flows, the effect of exchange rate changes on cash or cash equivalents held or due in a foreign currency are reported in the cash flow statement in order to reconcile cash and cash equivalents at the beginning and the end of the period. These amounts are presented separately from cash flows from operating, investing and financing activities and include the differences, if any, had those cash flows been reported at end-of-period exchange rates.

Reporting at subsequent reporting dates

- .21 **At each reporting date:**
- (a) **foreign currency monetary items shall be translated using the closing rate;**
 - (b) **non-monetary items that are measured in terms of historical cost in a foreign currency shall**

be translated using the exchange rate at the date of the transaction; and

(c) non-monetary items that are measured at fair value in a foreign currency shall be translated using the exchange rates at the date when the fair value was determined.

- .22 The value of an item is determined in conjunction with other applicable Chapters of this Standard. For example, capital assets may be measured in terms of fair value or historical cost in accordance with Chapter 11 on *Capital Assets*. Whether the value is determined on the basis of historical cost or on the basis of fair value, if the amount is determined in a foreign currency it is then translated in the functional currency in accordance with this Chapter.
- .23 When several exchange rates are available, the rate used is that at which the future cash flows represented by the transaction or balance could have been settled if those cash flows had occurred at the measurement date. If exchangeability between two currencies is temporarily lacking, the rate used is the first subsequent rate at which exchanges could be made.

Recognition of exchange differences

- .24 **Exchange differences arising on the settlement of recognised monetary items or on translating recognised monetary items at rates different from those at which they were translated on initial recognition during the period or in previous financial statements shall be recognised in surplus or deficit in the period in which they arise.**
- .25 When monetary items arise from a foreign currency transaction and there is a change in the exchange rate between the transaction date (date of recognition) and the date of settlement, an exchange difference results. When the transaction is settled within the same accounting period as that in which it occurred, all the exchange difference is recognised in that period. However, when the transaction is settled in a subsequent accounting period, the exchange difference recognised in each period up to the date of settlement is determined by the change in exchange rates during each period.
- .26 The treatment of foreign currency exchange rate changes in a cash flow statement is described in paragraph .20.
- .27 When a department keeps its books and records in a currency other than its functional currency, at the time the department prepares its financial statements all amounts are translated into the functional currency in accordance with paragraphs .17 to .23. This produces the same amounts in the functional currency as would have occurred had the items been recorded initially in the functional currency. For example, monetary items are translated into the functional currency using the closing rate, and non-monetary items that are measured on a historical cost basis are translated using the exchange rate at the date of the transaction that resulted in their recognition or recording.

Change in functional currency

- .28 When there is a change in an entity's functional currency, the entity shall apply the translation procedures applicable to the new functional currency prospectively from the date of the change.
- .29 As noted in paragraph .12, the functional currency of an entity reflects the underlying transactions, events and conditions that are relevant to the entity. Accordingly, once the functional currency is determined, it can be changed only if there is a change to those underlying transactions, events and conditions. For example, a change in the currency that mainly influences the sales prices or the provision of goods and services may lead to a change in an entity's functional currency.

- .30 The effect of a change in functional currency is accounted for prospectively. In other words, an entity translates all items into the new functional currency using the exchange rate at the date of the change. The resulting translated amounts for non-monetary items are treated as their historical cost.

Use of a presentation currency other than the functional currency

Translation to the presentation currency

- .31 A department may present its financial statements in any currency (or currencies). If the presentation currency differs from the department's functional currency, it translates its financial performance and financial position into the presentation currency.
- .32 **The financial performance and financial position of a department whose presentation currency differs from the department's functional currency shall be translated into a different presentation currency using the following procedures:**
- (a) assets and liabilities for each statement of financial position presented (i.e. including comparatives) shall be translated at the closing rate at the date of that statement of financial position;**
 - (b) revenue and expenses for each statement of financial performance (i.e. including comparatives) shall be translated at exchange rates at the dates of the transactions;**
 - (c) all resulting exchange differences shall be recognised as a separate component of net assets; and**
 - (d) assets and liabilities recorded in the notes to the financial statements (i.e. including comparatives) shall be translated at the closing rate of the financial statements.**
- .33 In translating the cash flows, that is the cash receipts and cash payments, of a foreign operation for incorporation into its cash flow statement, the reporting entity shall comply with the procedures in Chapter 6. Chapter 6 outlines the presentation of unrealised gains and losses arising from changes in foreign currency exchange rates on cash and cash equivalents held or due in a foreign currency.
- .34 For practical reasons, a rate that approximates the exchange rates at the dates of the transactions, for example, an average rate for the period, is often used to translate revenue and expense items. However, if exchange rates fluctuate significantly, the use of the average rate for the period is inappropriate.
- .35 The exchange differences referred to in paragraph .32(b) result from:
- (a) translating revenue and expense items at the exchange rates at the dates of the transactions and assets and liabilities at the closing rate. Such exchange differences arise both on revenue and expense items recognised in surplus or deficit and on those recognised directly in net assets; and
 - (b) translating the opening net assets at a closing rate that differs from the previous closing rate.
- These exchange differences are not recognised in surplus or deficit because the changes in exchange rates have little or no direct effect on the present and future cash flows from operations.

Disclosure

- .36 **The department shall disclose the amount of exchange differences recognised in surplus or deficit.**

- .37 When the presentation currency is different from the functional currency, that fact shall be stated, together with disclosure of the functional currency and the reason for using a different presentation currency.**
- .38 When there is a change in the functional currency of either the reporting entity or a significant foreign operation, that fact and the reason for the change in functional currency shall be disclosed.**
- .39 When a department presents its financial statements in a currency that is different from its functional currency, it shall describe the financial statements as complying with this Standard only if they comply with all the requirements of each applicable Chapter including the translation method set out in paragraph .32.**
- .40 A department sometimes presents its financial statements or other financial information in a currency that is not its functional currency without meeting the requirements of paragraph .39. For example, a department may convert into another currency only selected items from its financial statements. Such conversions are not in accordance with this Standard and the disclosures set out in paragraph .41 are required.**
- .41 When a department displays its financial statements or other financial information in a currency that is different from either its functional currency or its presentation currency and the requirements of paragraph .60 are not met, it shall:**
- (a) clearly identify the information as supplementary information to distinguish it from the information that complies with this Standard.**
 - (b) disclose the currency in which the supplementary information is displayed; and**
 - (c) disclose the department's functional currency and the method of translation used to determine the supplementary information.**

Comparison with GRAP 4 on The Effects of Changes in Foreign Exchange Rates

Chapter 21 is primarily drawn from GRAP 4. The main differences between this Chapter and GRAP 4 are as follows:

- The definition of foreign operation in the Chapter only refers to branches of a department. The equivalent GRAP includes controlled entities, associates and joint ventures of a reporting entity. Consequently, all associated guidance in this Chapter only relates to branches of a department.
- This Chapter includes guidance on the revaluation of items recorded in the notes to the financial statement. This is directly a consequence of the modified cash basis of accounting applied by departments. These items would ordinarily be recognised in the primary statements under the Standards of GRAP.
- This Chapter does not include guidance on the treatment of translation differences recognised directly in net assets as departments do not recognise non-monetary assets in the statement of financial position nor do they apply a revaluation model that may impact net assets of the department.
- This Chapter does not include guidance on when the functional currency of a department is the currency of a hyperinflationary economy as it is not at present relevant to South Africa and departments.
- This Chapter does not include guidance on the tax effects of exchange differences as it is not relevant to departments.
- This Chapter uses different terminology, in certain instances, from GRAP 4. The most significant examples include the use of 'department' and 'chapter'. The equivalent terms in GRAP 4 are 'entity', 'standard' respectively.

Modified Cash Standard

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