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Agenda

- Introduction to GRAP.
- IFRS vs GRAP - A general comparison.
- IFRS vs GRAP - Specific differences:
 - Treatment of assets.
 - The concept of capital.
 - Liabilities.
 - Equity/Net Assets.
 - Revenue/Income.

Agenda (continued)

- GRAP 1 - Presentation of Financial Statements.
- GRAP 2 - Cash Flow Statements.
- GRAP 3 - Accounting Policies, Changes in Accounting Estimates and Errors.
- GRAP 6 - Consolidated and Separate Financial Statements.

Introduction

Authority of GRAP

- As IFRS is to private sector companies, so are standards of GRAP to the public sector. But why have separate standards?
- Standards of Generally Recognised Accounting Practice (GRAP)
 - are accounting standards issued by the Accounting Standards Board (ASB).
 - This a requirement of section 89 of the Public Finance Management Act (PFMA)

GRAP Standards are applicable to:

- National and Provincial Departments
- Public entities listed in the PFMA
- Certain constitutional institutions
- Municipalities and all entities under their ownership and control
- Parliament and Provincial legislatures
- Generally entities with service delivery as opposed to profit orientated objective

- GRAP aimed at accounting to reliably account for
 - service potential as opposed to future economic benefits embodied in entity
- Trading entities as defined in the PFMA, major public entities and government business enterprise
 - IFRS

Directive 5

- Determines GRAP Accounting Framework for given financial year
- Updated regularly
- In the absence of a Standard of GRAP, accounting policy will be developed with reference to other standard setters
 - IPSASB
 - IASB
 - APB
 - APC of SAICA

IFRS vs GRAP

Accounting Framework

- IFRS – insulated
- GRAP – a blend of various
 - Standards, directives, interpretations Guidelines IPSAS, Interpretations and IFRS
- Public sector have unique challenges
 - Supply goods below market value
 - Hold assets that don't generate cash flows to fulfil their mandate
 - Earn revenue that does not give anything to counterparty in return

IFRS vs GRAP - A general comparison.

- On the surface, they look the same BUT the objective is fundamentally different...
- Consider USERS...
 - Parliament, public who pays taxes, levies for services
 - Present and potential finance providers
 - Creditors and employees
 - Economists
- Accountability of PUBLIC FUNDS – Stewardship
- Ability to provide service – resource management
 - Liquidity and sustainability

- Going concern GRAP:
 - financial problems resolved by ability to raise taxes, govt support
 - Will it continue in current or modified form?
- Relevance:
 - GRAP : Stewardship
 - IFRS : users
- Assets: service potential?
 - Restrictions on use of asset, unlimited physical control is not necessary for control to be present
 - Right to control rights or future access

IFRS vs GRAP - Specific differences

Treatment of assets.

- “future economic benefit or **service potential**”
- May hold assets that don’t generate income
 - Eg assets held by community clinic
- Impairment
 - Cash generating vs **non cash** generating assets
- Heritage Assets
 - Significance for communities, generational benefit
 - Difficulty to value
- Differences in recognition in recognition, measurement and disclosure of similar assets
 - PPE, IP, Inventory, Biological, Intangibles, Financial Assets

Liabilities

- Definition broader – includes service potential
- Government enters into an agreement to provide specific community services during the year
 - Government promises change...
 - Events still needing to take place??
- Differences in recognition, measurement and disclosure of the other liabilities, finance leases etc

Equity/Net Assets

- GRAP = net assets is the residual interest
- Who are the owners??
 - Government? Public?

Capital Maintenance

- GRAP = no equivalent
- IFRS
 - Physical and Financial Capital Maintenance

Revenue/Income

- GRAP Revenue includes revenue from normal operating activities and gains
 - Gain on sale of PPE
- Non exchange transactions
 - Entity receives value from another entity without giving approx. equal value in return
 - Some receive funding from govt, other entities collect taxes
 - There is no equivalent concept of government grant in GRAP

Expenses

- Both GRAP and IFRS refer to expenses incurred in the normal course of an entity's operations and losses
- Many entities exempt from tax
 - If not exempt must apply IFRS
- Irregular and fruitless expenditure

Other Areas

- Business combinations
 - GRAP = transfer of functions and mergers
- Presentation of budget information in AFS

Terminology

GRAP	IFRS
Net Assets	Equity
Surplus	Profit
Deficit	Loss
Accumulated Surplus/Deficit	Retained Earnings
Minority Interest	Non Controlling Interest
Controlled Entity	Subsidiary
Controlling Entity	Parent
Economic Entity	Group
Owners	Equity interest
Dividend and Similar Distributions	Dividends
Residual Interest	Equity interest

Specific GRAP Statements

GRAP 1 - Presentation of Financial Statements.

- Definitions
 - Incorporates service potential concept
 - Excludes concept of other comprehensive income and total comprehensive income
- Impracticable – guidance and retrospective application
- Components of AFS
 - Basic set
 - Statement of Net Assets
- Presentation of Budget Information
 - Prepared on same basis, comparison should be included otherwise a recon should be included

- Going concern
 - Includes other factors such as ability to collect levies/taxes and multi year funding arrangements
- Comparatives
 - Not required
- Statement of Financial Positions
 - If no share capital
 - Contributed capital
- Statement of Financial Performance
 - GRAP guidance potentially

- Capital
 - No GRAP equivalent
- Other disclosures
 - Laws and regulations dependents...

GRAP 2 - Cash Flow Statements

- Additional definitions that
 - Incorporate service potential
 - Operating activities defined as activities that are NOT financing and investing
- Cash Flow from Operating Activities - key indicator of the extent to which the operations of the entity
 - GRAP: are funded by way of taxes or from the recipient of g/s provided by the entity
 - IFRS: generated sufficient CFs to maintain operating capability of the entity

- Operating activities are primarily derived from principal
 - GRAP: cash generating activities (eg: taxes, levies, grants transfers, transfers, appropriations, grants paid – expenses)
 - IFRS: revenue producing activities
- Investing activities
 - GRAP: resources intended to contribute to future service delivery
 - IFRS: resources intended to generate future income and CFs

- Financing Activities
 - GRAP vs IFRS
- Reporting Operating Activities
 - GRAP: Direct method
- Changes in ownership – group accounting
 - GRAP no equivalent
 - Control change or not?
- Other disclosure
 - GRAP: amount and nature of restricted cash balances

GRAP 3 - Accounting Policies, Changes in Accounting Estimates and Errors.

- Definition of service potential
 - IFRS considers users needs
- Guidance for standards
 - Incorporated in GRAP
- Selections of policies
 - Consistency
 - Policy per category of items

- Management shall refer to and consider the applicability of the following in descending order
 - Requirement and guidance of GRAP dealing with similar and related items
 - Definition, recognition and measurement per Framework
- Management may consider recent pronouncements of other standard setting boards, provided consistent with GRAP

- Change in accounting estimates
 - Uncertainties inherent in delivering services, conducting trading and other activities
- Estimates may be required of
 - Tax revenue due to govt
 - Bad debts arising from uncollected taxes
 - Useful lives of depreciable assets
 - Percentage completion of road construction

GRAP 6 - Consolidated and Separate Financial Statements

- Definitions:
 - Service potential and terminology differences
- Control = power and benefit element
 - Constitution states national, provincial and local have independence
 - Certain circumstances there may be control
 - Does not require majority ownership or day to day involvement
 - Regulatory and purchase power do not constitute control for financial purposes
 - Need one control and one benefit criteria to be met

- Power conditions
 - The entity has directly/indirectly through controlled entities, ownership of a majority voting interest in the other entity
 - The entity has the power either granted or exercised within existing legislation, to appoint to remove a majority of the member of the board of directors or equivalent governing body and control of the entity is by that board or body
 - The entity has the power to cast or regulate the casting of a majority of votes that are likely to be cast at a general meeting of the other entity
 - The entity has the power to cast the majority of votes at the BoD/GB and control is by the Board

- Benefit conditions
 - The entity has the power to dissolve the other entity and obtain a significant level of the residual economic benefits or bear significant obligations
 - The entity has the power to extract distributions of assets from the entity and/or may be liable for certain obligations of the entity
- GRAP 6 also provides several other indicators of when an entity has power over another entity and is able to benefit from their activities

- Consolidation procedures
 - Changes in ownership interest without a loss of control
 - GRAP no equivalent
- Consolidation Procedure Minority Interest
 - Losses applicable to MI, are not allocated unless they have a binding obligation and are able to cover
 - Subsequent profits allocated to MI losses first

- Separate AFS: Treatment of Dividends
 - No guidance regarding pre or post acquisition split

QUESTIONS

THANK YOU FOR YOUR PARTICIPATION



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