GUIDELINES FOR PREPARATION OF PUBLIC SCHOOL FINANCIAL STATEMENTS

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SASA requirements relating to financial statements of public schools

In terms of Section 42 of the South African Schools Act, 1996 (Act 84 of 1996) (SASA) the governing body of a Public school must –

a) Keep records of funds received and spent by the public school and of its assets, liabilities, and financial transactions; and
b) as soon as practicable, but not later than three months after the end of each financial year, draw up annual financial statements in accordance with the **guidelines determined by the Member of the Executive Council**."

The Member of the Executive Council means the Member of the Executive Council of a province who is responsible for education in that province. (SASA.1)

The financial year of a public school commences on the first day of January and ends on the last day of December of each year. (SASA.44)

Section 43(5) states that a governing body must submit to the Head of Department, within six months after the end of each financial year, a copy of the annual financial statements, audited or examined.

Purpose, applicability and effective date

The purpose of these guidelines is to provide the requirements for the financial statements of a public school. The guidelines outline the minimum contents of the financial statements and the accounting policies for items included in the financial statements. The guide also outlines the fundamental principles, concept and requirements that should be complied with when preparing the financial statements of a public schools. These Guidelines are applicable to all public schools.

These Guidelines are effective for all financial periods beginning on or after **1 January 2019.** Earlier adoption is permitted.

Process of development

The development of these guidelines is a joint project of the Department of Basic Education (DBE) and the South African Institute of Chartered Accountants (SAICA)

In developing these guidelines, consideration was given and reference made to pronouncements issued by:

- the Accounting Standards Board (ASB);
- the National Treasury of South Africa (NT)
- the International Public Sector Accounting Standards Board (IPSASB);
- the International Accounting Standards Board (IASB);
- Provincial Departments of Educations (PDEs); and
- other organisations that develop financial reporting, accounting and auditing requirements for the public sector.

In developing the guidelines consideration was also given to:

- best practices, both locally and internationally;
- the capacity of schools to comply with the reporting requirements; and
- the systems used by schools in preparing and collating the information required to comply with the reporting requirements.

The principles in the existing accounting standards, such as Generally Recognised Accounting Practice (GRAP), Modified Cash Standards (MCS), International Public Sector Accounting Standards (IPSAS), International Financial Reporting Standards (IFRS) and IFRS for Small and Medium Entities (IFRS for SMEs) were also studied. Where applicable, the national and provincial legislation was consulted to develop principles and or required disclosures.

The guidelines will be reviewed periodically. The process for the amendment of the Guidelines will be as described in the preceding paragraphs.

Chapter 1: Fundamental principles, concepts and requirements

The financial statement of a public school must be based on the following principles, concepts and requirements:

Going Concern

These Guidelines apply to the preparation of the financials statements of a school where there are no material uncertainties related to events or conditions that may cast significant doubt upon the school's ability to continue as a going concern. When preparing financial statements, the governing body of a school using these guidelines shall make an assessment of the school's ability to continue as a going concern. The school is a going concern unless the governing body either intends to liquidate the school or to cease operations, or has no realistic alternative but to do so.

In assessing whether the going concern assumption is appropriate, the governing body takes into account all available information about the future, which is at least, but is not limited to, twelve months from the reporting date.

When the governing body is aware, in making its assessment, of material uncertainties related to events or conditions that cast significant doubt upon the school's ability to continue as a going concern, the school shall disclose those uncertainties. When a school does not prepare financial statements on a going concern basis, it shall disclose that fact, together with the basis on which it prepared the financial statements and the reason why the school is not regarded as a going concern.

Materiality

Information is material—and therefore has relevance—if its omission or misstatement could influence the economic decisions of users made on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. However, it is inappropriate to make, or leave uncorrected, immaterial departures from prescribed accounting treatment to achieve a particular presentation of a school's financial information.

Prudence

The uncertainties that inevitably surround many events and circumstances are acknowledged by the disclosure of their nature and extent and by the exercise of prudence in the preparation of the financial statements. Prudence is the inclusion of a degree of caution in the exercise of the judgements needed in making the estimates required under conditions of uncertainty, such that assets or income are not overstated and liabilities or expenses are not understated. However, the exercise of prudence does not allow the deliberate understatement of assets or income or the deliberate overstatement of liabilities or expenses. In short, prudence does not permit bias.

Identification of financial statements

The financial statements shall be identified clearly, and distinguished from other information in the same published document.

These Guidelines apply only to the school 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 these Guidelines from other information that may be useful to users but is not the subject of those requirements.

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 school or other means of identification, and any change in that information from the preceding reporting date;
b) the reporting date or the period covered by the financial statements;
c) the presentation currency; and
d) the level of rounding used in presenting amounts in the financial statements.

The requirements above are normally met by presenting page headings and abbreviated column headings on each page of the financial statements.

Materiality and aggregation

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.

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 assets and liabilities, statement of income and expenditure 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.

Comparative information

Comparative information shall be presented in respect of the preceding 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.

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 the disclosure of information that the uncertainty existed at the end of the preceding period, and about the steps that have been taken during the period to resolve the uncertainty.

If the presentation or classification of items in the financial statements is amended, comparative amounts shall be reclassified, unless the reclassification is impracticable. When comparative amounts are reclassified, a school shall disclose (including as at the beginning of the preceding period):

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.

When it is impracticable to reclassify comparative amounts, a school shall disclose:

a) the reason for not reclassifying the amounts; and
b) the nature of the adjustments that would have been made if the amounts had been reclassified.

Offsetting

Assets and liabilities, income and expenditure, shall not be offset unless required or permitted by this Guideline or Legislation.

It is important that assets and liabilities, and income and expenditure, are reported separately. Offsetting in the statement of assets and liabilities or the statement of income and expenditure, 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.

Chapter 2: Elements of the financial statements

Asset

A resource presently controlled by the school as a result of a past event. A resource is an item with service potential or the ability to generate economic benefits. Physical form is not a necessary condition of a resource. The service potential or ability to generate economic benefits can arise directly from the resource itself, from the rights to use the resource or the school's ability to direct how it may be used by denying or restricting access to that resource. Some resources embody an school's rights to a variety of benefits including, for example, the right to:

- use the resource to provide services;
- use an external party's resources to provide services, for example, leases;
- convert the resource into cash through its disposal;
- benefit from the resource's appreciation in value; or
- receive a stream of cash flows.

Service potential is the capacity to provide services that contribute to achieving the school's objectives. Economic benefits are cash inflows or a reduction in cash outflows. Cash inflows (or reduced cash outflows) may be derived from, for example:

- an asset's use in the production and sale of services; or
- the direct exchange of an asset for cash or other resources.

A school must have control of the resource. Control of the resource entails the ability of the school to use the resource (or direct other parties on its use) so as to derive the benefit of the service potential or economic benefits embodied in the resource in the achievement of its service delivery or other objectives. In assessing whether it presently controls a resource, a school assesses whether the following indicators of control exist:

- legal ownership;
- access to the resource, or the ability to deny or restrict access to the resource;
- the means to ensure that the resource is used to achieve its objectives; and
- the existence of an enforceable right to service potential or the ability to generate economic benefits arising from a resource.

While these indicators are not conclusive determinants of whether control exists, identification and analysis of them can inform that decision.

The definition of an asset requires that a resource that a school presently controls must have arisen from a past transaction or other past event. The past transactions or other events that result in a school gaining control of a resource and therefore an asset may differ. Schools can obtain assets by purchasing them in an exchange transaction or developing them. Assets may also arise through non-exchange transactions, including through the exercising of sovereign powers. In assessing when a school's control of rights to resources arise the following events may be considered:

- a general ability to establish a power,
- establishment of a power through a statute,
- exercising the power to create a right, and
- the event which gives rise to the right to receive resources from an external party. An asset arises when the power is exercised and the rights exist to receive resources.

Current assets

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 school's normal operating cycle;
b) it is expected to be realised within twelve months after the reporting date; or
c) it is cash or a cash equivalent asset unless it is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting date.

The operating cycle of a school is the time taken to convert inputs or resources into outputs. For instance, governments transfer resources to entities so that they can convert those resources into goods and services, or outputs, to meet the government's desired social, political and economic outcomes. When the school's normal operating cycle is not clearly identifiable, its duration is assumed to be twelve months. Current assets include assets (such as taxes receivable, user charges receivable, fines and regulatory fees receivable, inventories and accrued investment revenue) 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.

Non-current assets

All assets that do not meet the definition of current assets are classified as non-current.

Liability

A present obligation of the school for an outflow of resources that results from a past event.

A present obligation is a legally binding obligation (legal obligation) or non-legally binding obligation, which a school has little or no realistic alternative to avoid. Obligations are not present obligations unless they are binding and there is little or no realistic alternative to avoid an outflow of resources. A liability must involve an outflow of resources from the school for it to be settled. An obligation that can be settled without an outflow of resources from the school is not a liability.

To satisfy the definition of a liability, it is necessary that a present obligation arises as a result of a past transaction or other event and requires an outflow of resources from the school. The complexity of public sector programmes and activities means that a number of events in the development, implementation and operation of a particular programme may give rise to obligations. For financial reporting purposes it is necessary to determine whether such commitments and obligations, including binding obligations that the school has little or no realistic alternative to avoid but are not legally enforceable (non-legally binding obligations) are present obligations and satisfy the definition of a liability. Where an arrangement has a legal form and is binding, such as a contract, the past event may be straightforward to identify. In other cases, it may be more difficult to identify the past event and identification involves an assessment of when a school has little or no realistic alternative to avoid an outflow of resources from the school. In making such an assessment a school considers all the relevant factors.

Binding obligations can be legal obligations or non-legally binding obligations. Binding obligations can arise from both exchange and non-exchange transactions. An obligation must be to an external party in order to give rise to a liability. A school cannot be obligated to itself, even where it has publicly communicated an intention to behave in a particular way. Identification of an external party is an indication of the existence of an obligation giving rise to a liability. However, it is not essential to know the identity of the external party before the time of settlement in order for a present obligation and a liability to exist.

Many arrangements that give rise to an obligation include settlement dates. The inclusion of a settlement date may provide an indication that an obligation involves an outflow of resources and gives rise to a liability. However, there are many agreements that do not contain settlement dates. The absence of a settlement date does not preclude an obligation giving rise to a liability.

A legal obligation is enforceable in law. Such enforceable obligations may arise from a variety of legal constructs. Exchange transactions are usually contractual in nature and therefore enforceable through the laws of contract or equivalent authority or arrangements. For some types of non-exchange transactions, judgement will be necessary to determine whether an obligation is enforceable in law. Where it is determined that an obligation is enforceable in law there can be no doubt that a school has no realistic alternative to avoid the obligation and that a liability exists.

Some obligations related to exchange transactions are not strictly enforceable by an external party at the reporting date, but will be enforceable with the passage of time without the external party having to meet further conditions— or having to take any further action—prior to settlement. Claims that are unconditionally enforceable subject to the passage of time are enforceable obligations in the context of the definition of a liability.

Sovereign power is the ultimate authority of government to make, amend and repeal legal provisions. Sovereign power is not a rationale for concluding that an obligation does not meet the definition of a liability. The legal position should be assessed at each reporting date to consider if an obligation is no longer binding and does not meet the definition of a liability.

Liabilities can arise from non-legally binding obligations. Non-legally binding obligations differ from legal obligations in that the party to whom the obligation exists cannot take legal (or equivalent) action to enforce settlement. Non-legally binding obligations that give rise to liabilities have the following attributes:

- the school has indicated to other parties by an established pattern of past practice, published policies, or a sufficiently specific current statement that it will accept certain responsibilities;
- as a result of such an indication, the school has created a valid expectation on the part of those other parties that it will discharge those responsibilities; and
- the school has little or no realistic alternative to avoid settling the obligation arising from those responsibilities.

In the public sector, obligations may arise at a number of points. For example, in implementing a programme or service:

- making a political promise such as an electoral pledge;
- announcement of a policy;
- introduction (and approval) of the budget (which may be two distinct points); and
- the budget becoming effective.

The early stages of implementation are unlikely to give rise to present obligations that meet the definition of a liability. Later stages, such as claimants meeting the eligibility criteria for the service to be provided, may give rise to obligations that meet the definition of a liability.

The point at which an obligation gives rise to a liability depends on the nature of the obligation. Factors that are likely to impact on judgments whether other parties can validly conclude that the obligation is such that the school has little or no realistic alternative to avoid an outflow of resources include:

- the nature of the past event or events that give rise to the obligation. For example, a promise made in an election is unlikely to give rise to a present obligation because an electoral pledge very rarely creates a valid expectation on the part of external parties that the school has an obligation that it has little or no realistic alternative to avoid settling. However, an announcement in relation to an event or circumstance that has occurred may have such political support that the government has little option to withdraw. Where the government has committed to introduce and secure passage of the necessary budgetary provision such an announcement may give rise to a non-legally binding obligation; and
- the ability of the school to modify or change the obligation before it crystallises. For example, the announcement of policy will generally not give rise to a non-legally binding obligation, if it can be modified before being implemented. Similarly, if an obligation is contingent on future events occurring, there may be discretion to avoid an outflow of resources before those events occur.

"Economic coercion", "political necessity" or other circumstances may give rise to situations where, although the public sector school is not legally obliged to incur an outflow of resources, the economic or political consequences of refusing to do so are such that the school may have little or no realistic alternative to avoid an outflow of resources. Economic coercion, political necessity or other circumstances may lead to a liability arising from a non-legally binding obligation.

Current liabilities

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

a) it is expected to be settled in the school's normal operating cycle;
b) it is due to be settled within twelve months after the reporting date; or
c) the school does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting date.

Some current liabilities, such as government transfers payable and accruals for employee and other operating costs, are part of the working capital used in the normal operating cycle of the school. 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 school's assets and liabilities. When the school's normal operating cycle is not clearly identifiable, its duration is assumed to be twelve months.

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. Examples are bank overdrafts, current portion of non-current financial liabilities, income taxes and other non-trade payables.

A school classifies its financial liabilities as current when they are due to be settled within twelve months after the reporting date, even if:

a) the original term was for a period of longer than twelve months; and
b) an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the reporting date and before the financial statements are authorised for issue.

If a school expects, and has the discretion, to refinance or roll over an obligation for at least twelve months after the reporting date under an existing loan facility, it classifies the obligation as non-current even if it would otherwise be due within a shorter period. However, when refinancing or rolling over the obligation is not at the discretion of the school (for example there is no agreement to refinance), the potential to refinance is not considered and the obligation is classified as current.

When a school breaches an undertaking or covenant under a long-term loan agreement on or before the reporting date with the effect that the liability becomes payable on demand, the liability is classified as current, even if the lender has agreed, after the reporting date and before the authorisation of the financial statements for issue, not to demand payment as a consequence of the breach. The liability is classified as current because, at the reporting date, the school does not have an unconditional right to defer its settlement for at least twelve months after that date.

However, the liability is classified as non-current if the lender agreed by the reporting date to provide a period of grace ending at least twelve months after the reporting date, within which the school can rectify a breach and during which the lender cannot demand immediate repayment.

Non-current liabilities

All liabilities that do not meet the definition of current liabilities are classified as non-current.

Income

Inflow of economic benefits during the reporting period when those inflows result in an increase in assets or reduction in liabilities. It comprises only of economic benefits received or receivable by the school on its own account.

Expenditure

Decreases in economic benefits during the reporting period in the form of outflows or incurrences of liabilities that result in decreases in assets or increases in liabilities.

Surplus

The amount by which the income exceeds expenditure

Deficit

The amount by which expenditure exceeds income

Chapter 3: Recognition of assets, liabilities, income and expenditure

Recognition is the process of incorporating in the financial statements an item that meets the definition of an asset, liability, income or expense and satisfies the following criteria:

a) it is probable that any future economic benefit associated with the item will flow to or from the school; and
b) the item has a cost or value that can be measured reliably.

The failure to recognise an item that satisfies those criteria is not rectified by disclosure of the accounting policies used or by notes or explanatory material.

The probability of future economic benefit

The concept of probability is used in the first recognition criterion to refer to the degree of uncertainty that the future economic benefits associated with the item will flow to or from the school. Assessments of the degree of uncertainty attaching to the flow of future economic benefits are made on the basis of the evidence relating to conditions at the end of the reporting period available when the financial statements are prepared. Those assessments are made individually for individually significant items, and for a group for a large population of individually insignificant items.

Reliability of measurement

The second criterion for the recognition of an item is that it possesses a cost or value that can be measured with reliability. In many cases, the cost or value of an item is known. In other cases it must be estimated. The use of reasonable estimates is an essential part of the preparation of financial statements and does not undermine their reliability. When a reasonable estimate cannot be made, the item is not recognised in the financial statements.

An item that fails to meet the recognition criteria may qualify for recognition at a later date as a result of subsequent circumstances or events.

An item that fails to meet the criteria for recognition may nonetheless warrant disclosure in the notes or explanatory material or in supplementary schedules. This is appropriate when knowledge of the item is relevant to the evaluation of the financial position, performance and changes in financial position of a school by the users of financial statements.

Assets

A school shall recognise an asset in the statement of assets and liabilities when it is probable that the future economic benefits will flow to the school and the asset has a cost or value that can be measured reliably. An asset is not recognised in the statement of assets and liabilities when expenditure has been incurred for which it is considered not probable that economic benefits will flow to the school beyond the current reporting period. Instead such a transaction results in the recognition of an expense in the statement of income and expenditure (or in the income statement, if presented).

Liabilities

A school shall recognise a liability in the statement of assets and liabilities when:

a) the school has an obligation at the end of the reporting period as a result of a past event;
b) it is probable that the school will be required to transfer resources embodying economic benefits in settlement; and
c) the settlement amount can be measured reliably.

Income

The recognition of income results directly from the recognition and measurement of assets and liabilities. A school shall recognise income in the statement of income and expenditure when an increase in future economic benefits related to an increase in an asset or a decrease of a liability has arisen that can be measured reliably.

Expenses

The recognition of expenses results directly from the recognition and measurement of assets and liabilities. A school shall recognise expenses in the statement of income and expenditure when a decrease in future economic benefits related to a decrease in an asset or an increase of a liability has arisen that can be measured reliably.

Chapter 4: Measurement of assets, liabilities, income and expenditure

Measurement is the process of determining the monetary amounts at which a school measures assets, liabilities, income and expenses in its financial statements. Measurement involves the selection of a basis of measurement. The following measurement bases shall be applied by a public school:

a) Historical cost:
   a. For assets, historical cost is the amount of cash or cash equivalents paid or the value of the consideration given to acquire the asset at the time of its acquisition.
   b. For liabilities, historical cost is the amount of proceeds of cash or cash equivalents received or the value of non-cash assets received in exchange for the obligation at the time the obligation is incurred, or in some circumstances (for example, income tax) the amounts of cash or cash equivalents expected to be paid to settle the liability in the normal course of business.

b) Amortised historical cost is the historical cost of an asset or liability plus or minus that portion of its historical cost previously recognised as expense or income.

c) Value
   a. For assets, value is the most reliable estimate of the amount that can be received on disposal of the asset.
   b. For liabilities, value is the most reliable estimate of the amount required to settle the liability

Chapter 5: Components of the Annual Financial Statements

The annual financial statements of a public school shall consist of the following:

- Statement of income and expenditure
- Statement of Assets and Liabilities
- Basis of preparation and accounting policies
- Explanatory notes; and
- Other relevant disclosures

Chapter 6: Statement of Income and Expenditure

The Statement of Income and Expenditure shall include all income and expenditure and the resulting surplus or deficit.

Income includes, but is not limited to, the following:

- School fees
- Government Subsidies
- Government Grants
- Government transfers
- Donations
- Sponsorships
- Rental Income
- Sales – Tuck shop
- Investment Income - Interest Received
- Profit on sale of assets
- Fund raising

Expenditure includes, but is not limited to, the following:

- Water
- Electricity
- Telephone
- Transport
- Staff costs – SGB Appointed
- Accounting fees
- Audit fees
- Bank Charges
- Cleaning Materials
- Consulting fees
- Gardening
- Insurance
- Postage
- Rates and Taxes
- Rental of equipment
- Repairs and maintenance

When items of income or expenditure are material, their nature and amount shall be presented separately on the face of the Statement of Income and Expenditure. Explanatory notes shall be included to provide additional information about amounts included on the face of the statement of income and expenditure.

Chapter 7: Statement of Assets and Liabilities

The Statement of Assets and Liabilities shall include, but are not limited to, the following:

Non-Current Assets

- Land and buildings
- Furniture and equipment
- Vehicles
- Fixtures & Fitting

Current Assets

- Bank and Cash equivalents
- Petty Cash
- Prepaid expenses
- School Fees owing
- Textbooks
- Feeding scheme groceries
- Stocks and consumables

Non-Current Liabilities

- Bank Loan

Current Liabilities

- Expenses owing
- School fees received in advance
- SARS PAYE, UIF AND SDL

Accumulated funds

- Transfer of assets from the Department
- Balance of accumulated funds from previous year
- Surplus/deficit for the year

The total assets should equal Accumulated funds and liabilities. When assets and liabilities are material, their nature and amount shall be presented separately on the face of the Statement of Assets and Liabilities.

Explanatory notes shall be included to provide additional information about amounts included on the face of the statement of assets and liabilities. All assets, liabilities and accumulated funds shall include a reconciliation of the opening and closing balance indicating separately all material movements.

Chapter 8: Basis of preparation and significant accounting policies

Basis of preparation

The annual financial statements are prepared in accordance with the Guidelines from the MEC issued in terms of Section 42(b) of the South African Schools Act. They are presented in South African Rand. These financial statements are prepared using the going-concern principle and on an accrual basis, in line with the historical cost measurement basis, unless stated otherwise.

Immovable assets

Immovable assets owned by the school shall be recognised in the financial statements of the school at cost from the date of acquisition. The cost of the immovable assets purchased shall be the actual purchase price. The cost of immovable assets acquired through other means shall be the value thereof. Immovable assets not owned by the school shall not be recognised. Immovable assets shall not be depreciated. Immovable assets shall be derecognised on disposal or write-off.

Improvements to immovable assets

The cost of improvements made to immovable assets owned by the school shall be added to the cost or value of the property. The cost of improvements made on immovable assets not owned by the school shall be expensed when incurred.

Movable assets

Movable assets shall be recognised at cost from the date of acquisition. The cost of movable assets purchased shall be the actual purchase price. The cost of movable acquired through other means shall be the value thereof. Movable assets shall be depreciated on the straight line basis over their expected useful life. The amount of depreciation for the year shall be included as an expense in the statement of income and expenditure. Movable assets shall be derecognised on disposal or write-off.

Stock and Consumables

Stock and Consumables include assets that are used in the day to day running of the school and are expected to be used up within 12 month from the date of acquisition. Consumables shall be recognised in the financial statements of the school at cost from the date of acquisition. Consumables shall be derecognised when they are used, disposed or written off.

Government subsidies, grants and transfers

Unconditional subsidies, grants and transfers received from the government shall be recognised as income when they are received. Conditional grants shall be recognised as a liability when received and recognised as income when the conditions are met.

School fees

School fees shall be recognised as income when the learner registers at a public school, net of approved school fee exemptions. School fee payments received in the current year that relate to future years shall be recognised as school fees received in the statement of assets and liabilities. School fee exemption refunds shall be recognised as income when they are received.

Donations received

Cash donations received shall be recognised as income on the date the cash is received. Donations of assets shall be recognised at the value of the asset on the date the asset is received by the school. Donations of services shall not be recognised in the financial statements of a school.

Changes in accounting estimates

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. 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.

A school shall recognise the effect of a change in an accounting estimate, other than a change to which the requirement below applies, prospectively by including it in profit or loss in:

a) the period of the change, if the change affects that period only; or
b) the period of the change and future periods, if the change affects both.

To the extent that a change in an accounting estimate gives rise to changes in assets and liabilities, or relates to an item of equity, the school shall recognise it by adjusting the carrying amount of the related asset, liability or equity item in the period of the change.

Corrections of prior period errors

Prior period errors are omissions from, and misstatements in, a school'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.

To the extent practicable, a school shall correct a material prior period error retrospectively in the first financial statements authorised for issue after its 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 asset for the earliest prior period presented.

When it is impracticable to determine the effects of an error on comparative information for one or more prior periods presented, the school shall restate the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practicable (which may be the current period).

Functional currency translations

Each school shall identify its functional currency. A school's functional currency is the currency of the primary economic environment in which the school operates. The primary economic environment in which a school operates is normally the one in which it primarily generates and expends cash.

A foreign currency transaction is a transaction that is denominated or requires settlement in a foreign currency. A school shall record a foreign currency transaction, on initial recognition 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.

The date of a transaction is the date on which the transaction first qualifies for recognition in accordance with these guidelines. 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.

At the end of each reporting period, a school shall:

a) translate foreign currency monetary items using the closing rate;
b) translate non-monetary items that are measured in terms of historical cost in a foreign currency using the exchange rate at the date of the transaction; and
c) translate non-monetary items that are measured at value in a foreign currency using the exchange rates at the date when the value was determined.

A school shall recognise, in profit or loss in the period in which they arise, exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous periods.

Accounting policies for transactions, other events and condition not addressed by these guidelines

If these guidelines specifically addresses a transaction, other event or condition, a school shall apply these guidelines. If these guidelines do not specifically address a transaction, other event or condition, the school's SGB shall use its judgement in developing and applying an accounting policy that results in information that is relevant to the economic decision-making needs of users and is reliable

In making such judgements, the SGB shall refer to, and consider the applicability of, the following sources in descending order:

a) the requirements and guidance in these guidelines dealing with similar and related issues; and
b) the definitions, recognition criteria and measurement concepts for assets, liabilities, income and expenses and the fundamental principles and concept outlined in these guidelines.

In making the judgements above, management may also consider the requirements and guidance in other financial reporting standards dealing with similar and related issues.

Chapter 9: Other relevant disclosures

Foreign currency transactions

A school shall disclose the amount of exchange differences recognised in the statement of income and expenditure during the period. A school shall disclose the currency in which the financial statements are presented.

Changes in estimate

A school shall disclose the nature of any change in an accounting estimate and the effect of the change on assets, liabilities, income and expense for the current period. If it is practicable for the school to estimate the effect of the change in one or more future periods, the school shall disclose those estimates.

Prior period errors

A school shall disclose the following about prior period errors:

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 financial statement line item affected;
c) to the extent practicable, the amount of the correction at the beginning of the earliest prior period presented; and
d) an explanation if it is not practicable to determine the amounts to be disclosed in (b) or (c).

Financial statements of subsequent periods need not repeat these disclosures.

Chapter 10: Reference material used

- South African Schools Act No.84 of 1996
- Generally Recognised Accounting Practices (GRAP) issued by the Accounting Standards Board
- Modified Cash Standards (MCS) issued by National Treasury
- International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board
- IFRS for Small and Medium Entities (IFRS for SMEs) issued by International Accounting Standards Board