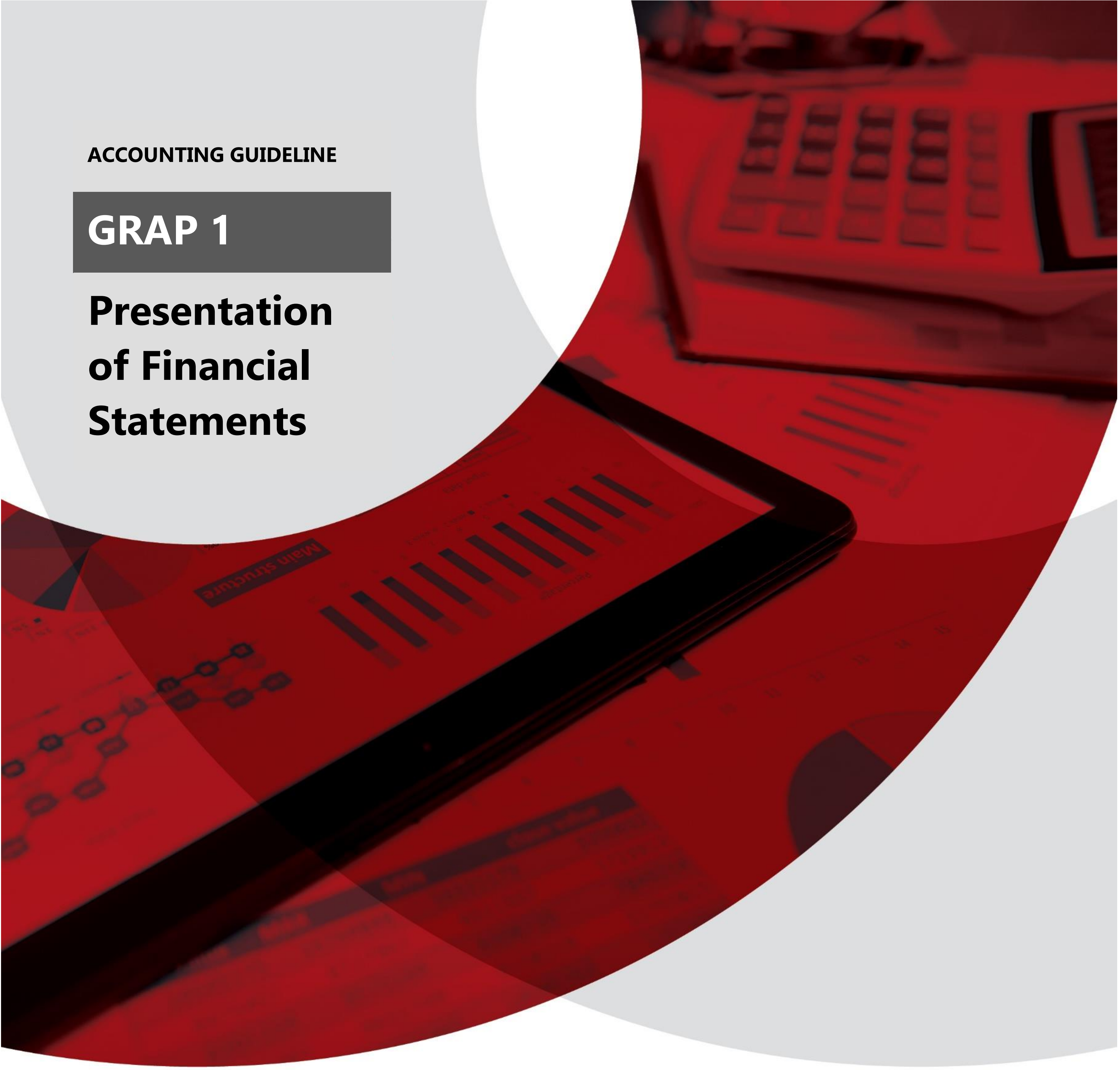
ACCOUNTING GUIDELINE

GRAP 1

Presentation of Financial Statements



national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

Contents

****Additional guidance included on additional disclosures in the annual financial statements see page 7**

1. Introduction

This document provides guidance on the bases for the presentation of financial statements. The contents should be read in conjunction with GRAP 1.

For purposes of this guide, “entities” refer to the following bodies to which the standard of GRAP relate to, unless specifically stated otherwise:

- Public entities
- Constitutional institutions
- Municipalities and all other entities under their control
- Trading entities and government components applying the standards of GRAP
- Parliament and the provincial legislatures
- TVET and CET colleges

Explanation of images used in manual:

	Definition
	Take note
	Management process and decision making
	Example

2. Scope

GRAP 1 is applicable to all entities preparing their financial statements (and where applicable, consolidated and separate financial statements) on the accrual basis of accounting in accordance with the Standards of GRAP.

Consequently, in presenting financial statements entities should consider GRAP 1 as well as the requirements in other standards.

3. Overall considerations

3.1 Fair presentation and compliance with the Standards of GRAP

For financial statements to be fairly presented, the effects of transactions, other events and conditions should be truthfully and accurately represented in accordance with the definitions and recognition criteria for assets, liabilities, revenue and expenses.

Fair presentation is achieved by:

- complying with all relevant standards of GRAP;
- selecting and applying accounting policies in accordance with the requirements of GRAP 3 on *Accounting Policies, Changes in Accounting Estimates and Errors*;
- presenting all information in the financial statements in a manner that is relevant, reliable, comparable and understandable; and
- providing additional disclosures where compliance with the requirements of a Standard of GRAP is insufficient to enable the users to understand the impact on the entity's financial position and financial performance.

Financial statements should not be described as complying with the standards of GRAP, unless they comply with **all the requirements** of each applicable standard of GRAP.

Inappropriate accounting policies are not rectified by disclosure of the accounting policies used, nor by the notes or explanatory material presented.

Entities may disclose information required or encouraged by the Standards of GRAP in schedules, annexures or appendices to the financial statements. Entities should however clearly indicate whether such schedules, annexures or appendices are part of the financial statements, e.g. by referring the relevant accounting policies and/or notes to the annexures (and vice versa).

Information contained in schedules, annexures, or appendices that are NOT part of the financial statements should be clearly distinguished from information that is part of the financial statements.

Entities should also consider the placement of such schedules, annexures or appendices in the financial statements. For example, it may be appropriate to include those schedules, annexures or appendices that are part of the financial statements directly after the notes to the financial statements, and before any other information that is not part of the financial statements.

Entities are encouraged, or may be required by legislation or regulations to disclose information about compliance with legislation and regulations in the annual financial statements.

Where information regarding compliance is not disclosed, it may be useful to refer in a note to any document that includes such information.

In the extremely rare circumstances when management concludes that compliance with a requirement in a standard of GRAP would be so misleading that it would be in conflict with the objective of financial statements in the Framework for the Preparation and Presentation of Financial Statements[1], the entity may depart from that requirement, where legislation requires a departure. If departure is required, it needs to be ensured that fair presentation is achieved. An example would be when the financial statements do not represent the transactions, other events or conditions truthfully and accurately and it is expected that this fact would likely influence decisions made by users of the financial statements.

In the unlikely event that an entity does depart from a requirement of a standard of GRAP, certain disclosure should be made.

[1] Replaced by the *Conceptual Framework for General Purpose Financial Reporting*

Below is an illustrative example of the disclosure required on departure from a standard of GRAP (refer to the standard for detail):

Extract from *Notes to the Financial Statements*

Specify component / title.

Management is of the opinion that the entity's financial position, financial performance and cash flows are fairly presented.

The entity has complied with GRAP X, except for the following:

Insert nature of the departure.

The standard of GRAP requires (insert the requirement of the standard), the entity has departed from this requirement because (insert the reason why the treatment would be so misleading) and as a result, the entity has followed (insert the treatment adopted).

The effect on the current and prior period are disclosed below:	20x1	20x0
	R	**R**
Statement of Financial Position		
Asset	XX	XX
Liability	XX	XX
Statement of Changes in Net Assets		
Accumulated surplus/deficit (opening balance)	XX	XX
Statement of Financial Performance		
Revenue	XX	XX
Expense	XX	XX

The above should reflect what the accounting would have been if the entity had not departed from the requirement.

Can an entity provide additional information in the financial statements over and above what is required by the standards of GRAP?

As mentioned above it is presumed that the application of the requirements in the standards of GRAP will result in financial statements achieving fair presentation. Where the required information is included schedules, annexures or appendices, clear references must also be provided to ensure that the user can easily find the information. The question however arises as to whether additional information is permitted (in the notes, schedules, annexures or appendices).

According to GRAP 1 paragraph .17 → "*The application of Standards of GRAP with <u>additional disclosures</u>, when necessary is presumed to result in financial statements that achieve fair presentation.*"

Also in paragraph .19(c) of GRAP 1 → "*A fair presentation also requires an entity to provide <u>additional disclosures</u> when compliance with the specific requirements in Standards of GRAP is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.*"

From the above, it is clear that the standards of GRAP do not prohibit the inclusion of additional information in the financial statements that is not required by the standards, and that it is in fact encouraged or even required, if the additional information:

- is necessary to achieve fair presentation;
- is useful and relevant to users; and
- is likely to influence the decisions made by users on the basis of the financial statements, by for example:
  - enabling users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance (GRAP 1.19(c)),
  - assisting users to assess the performance of the entity, and its stewardship of assets, as well as to make and evaluate decisions about the allocation of resources (GRAP 1.15),
  - enhancing users' understanding of the statement of financial position, statement of financial performance, statement of changes in net assets, cash flow statement or statement of comparison of budget and actual amounts (GRAP 1.122(c)).

However, any additional information included in the financial statements should not:

- be misleading to the users;
- reduce users' understanding of the entity's financial statements, or transactions, other events and conditions;
- provide immaterial information;
- obscure or make the material information in financial statements less visible;
- detract from the information that is required by the Standards of GRAP;
- be contrary to the entity's accounting policies;
- be in conflict with the objective of financial statements in the Conceptual Framework for General Purpose Financial Reporting (the Conceptual framework); or

- be inconsistent with the definitions, the qualitative characteristics and constraints, or the recognition criteria and measurement concepts for assets, liabilities, revenue and expenses in the Conceptual framework.

3.2 Going Concern

Management should make an assessment of an entity's ability to continue as a going concern when preparing the financial statements. Financial statements should be prepared on a going concern basis, unless there is an intention to liquidate the entity.

Management's use of the going concern basis of accounting is also relevant in the public sector. The risk of a going concern that may arise when government support through appropriations are reduced or withdrawn. Other examples include policy decisions made that affect the services provided by the entity which may also result in privatisations, transfers of functions or mergers.

Where there are uncertainties regarding the entity's ability to continue as a going concern, these uncertainties should be disclosed. Where financial statements are not prepared on a going concern basis, it should be disclosed.

Illustrative example of disclosure required when there is uncertainty regarding going concern

We draw attention to the fact that at the end of the reporting period, the entity had an accumulated deficit of Rx and that the entity's total liabilities exceed its assets by Rx.

The annual financial statements have been prepared on the basis applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The ability of the entity to continue as a going concern is dependent on xxx.

3.3 Accrual basis of accounting

Under GRAP the financial statements (excluding the cash flow) are prepared on an accrual basis.

When an entity uses the accrual basis of accounting, transactions, other events and conditions are recognised when they occur and are recognised in the period to which they relate and **not only recognised when cash is paid or received**.

3.4 Consistency of presentation

Presentation and classification of items in the financial statements must be consistent, except when another presentation or classification would be more appropriate, or a standard of GRAP requires a change in presentation (comparability should, however, not be impaired).

3.5 Materiality and aggregation

Each material class of similar items should be presented separately in the financial statements.

GRAP disclosure requirements only apply to material items. Similarly, accounting policies in GRAP need not be applied when the effect of applying them is immaterial.

Materiality is assessed with reference to the users of the financial statements.

Consideration should also be given to items that might not be sufficiently material to warrant separate disclosure on the face of the statement but that may nevertheless be sufficiently material to be presented separately in the notes. Items of a dissimilar nature or function should be presented separately, except when they are immaterial.

Example: Items of dissimilar nature should be presented separately unless they are immaterial

Entities often group dissimilar expenses together under the heading "other expenses" when detail of general expenses are disclosed in the notes. Often the total of these "other expenses" exceed materiality and sometimes the total of "other expenses" would even constitute the largest expenses line item. These dissimilar expenses should be presented separately, unless they are immaterial.

If an item is material by nature it should be disclosed separately and not aggregated with other expenses, regardless of its monetary value. For example, if an expense of R7,000 for the write off of irrecoverable stolen cash was included in the immaterial line item "other expenses", then the R7,000 has to be disclosed separately, because the nature of the amount is material.

Example: Material items that may warrant separate disclosure in the financial statements

Receivables:

"Receivables from exchange transactions" is a line-item that should be separately disclosed on the face of the statement of financial position. For some entities receivables from exchange transactions is not a material figure but may warrant separate disclosure from other receivables in the notes to the statement of financial position, although it is not separately disclosed on the face.

Revenue:

Sub-categories of revenue may be disclosed either on the face, or in the notes to the financial statements. For example:

Extract from Statement of Financial Performance	20x1	20x0
	R	**R**
Revenue		
Non-exchange revenue		
Tax revenue	1,000,000	500,000
Transfers received	2,000,000	1,520,000
Fines, penalties and forfeits	600,000	-
	3,600,000	**2,020,000**
Exchange revenue		
Sales of goods and services	900,000	750,000
Interest received	20,000	30,000
Gain on sale of property, plant and equipment (capital assets)	71,000	-
	991,000	**780,000**
	4,591,000	**2,800,000**

The concept of materiality is discussed in further detail in the Accounting Guideline on GRAP 3, *Accounting Policies, Accounting Estimates And Errors*.

3.6 Offsetting

Assets and liabilities, revenue and expenses should not be offset; these items should be reported separately. Offsetting is permitted only if it is required by a standard of GRAP or where offsetting reflects the substance of the transaction or the event.

Example: Offsetting permitted

Sale of goods

The entity normally sells goods at R1,200 per item. Customer A is a very good customer and receives a 12.5% discount after buying 5 items.

Extract from Statement of Financial Performance	20x1	20x0
	R	**R**
Revenue		
Sale of goods (R1, 200 x 5items x 87.5%)	5,250	X

As illustrated in the above extract, offsetting is permitted if required by a standard of GRAP. GRAP 9 on *Revenue From Exchange Transactions*, states: Revenue is "… measured at the fair value of the consideration received or receivable taking into account the amount of any trade discounts and volume rebates allowed by the entity."

VAT receivable/payable

Another example where offsetting is permitted is VAT receivable and VAT payable, as offsetting thereof reflects the substance of the transactions, i.e. the entity has the intention to claim or settle the outstanding balances simultaneously.

Expenses

In an additional example, entity C has a policy whereby all personal telephone calls made by members of staff are deducted from their salaries in the month following the receipt of the telephone bill. In this instance, when the salary deduction is offset against the related expense, this reflects the substance of the transaction - the entity's actual telephone expense is the amount net of the expenses incurred by and recoverable from the staff members.

Further examples are:

- gains and losses on the disposal of non-current assets, where the carrying amount of the assets and the related selling costs are deducted from the proceeds from the sale; and
- a reimbursement received from a third party related to a provision that was raised in accordance with GRAP 19 on *Provisions, Contingent Liabilities and Contingent Assets*, may be netted against the original expense.

Example: Offsetting not permitted

One of the entity's major suppliers leases a property from the entity. At the end of 20x1the supplier has not yet paid the last month's rental of R15,500 and the entity had an outstanding balance with the supplier of R35,600.

Extract from Statement of Financial Position	20x1	20x0
	R	R
Current assets		
Receivables from exchange transactions	15,500	X
.....		
Current liabilities		
Payables from exchange transactions	(35,600)	(X)

As illustrated in the extract above, offsetting is not allowed unless permitted by a standard of GRAP, or if it reflects the substance of the transaction or event, i.e. the entity and supplier have the intention of settling both transactions simultaneously. In this example, there are two different transactions and the intention is not to settle them simultaneously, i.e. the entity will not set off the amount due from the supplier against the amount payable to the supplier.

Note that GRAP 104 on *Financial Instruments* (2018) specifically prohibits offsetting of financial assets and financial liabilities. Offsetting is only allowed if the entity has the intention to settle on a net basis and has a legal enforceable right to set off the amounts.

Example: Agent vs. principal

Money collected by an entity acting as an agent on behalf of a principal (another entity) does not constitute revenue to the entity and does notconstitute revenue to the entity. The amounts collected on behalf of a principal are not revenue, however, the amounts of commission received or receivable for the collection of the gross inflows, are revenue.

For example, SARS collects Unemployment Insurance Fund (UIF) contributions from employers on behalf of the UIF, for a commission of 0.5%. During the reporting period SARS collected R10,000,000.

SARS's records

The UIF delivers the service and SARS collects the amounts due to the UIF, thus SARS acts as an agent. The money collected by SARS cannot be recognised as revenue, it should be recognised as amounts due to the UIF.

	Debit	Credit
	R	R
Bank	10,000,000	
Payables (UIF)		10,000,000

The commission that SARS is entitled to should be recognised as revenue.

	Debit	Credit
	R	**R**
Receivable (UIF)	50,000	
Revenue (R10, 000,000 x 0.5%)		50,000

In the example above, offsetting of the amounts due to the UIF and the amount due from the UIF will be allowed, as it reflects the substance of the transaction or event, i.e. SARS and the UIF have the intention of settling both transactions simultaneously. In this example, SARS will pay over the net amount after deducting the commission receivable on the transaction to the UIF.

Items that **would not** be considered to be offsetting of assets and liabilities include:

- Accumulated depreciation of property, plant and equipment;
- Allowance account for impairment provisions;
- Accumulated amortisation of intangible assets;
- Provisions for inventory obsolescence;

Items that **would be** considered to be acceptable offsetting of revenue and expenditure:

- Revenue and related expenses on transactions that do not generate revenue and are incidental to the main revenue generating activities (where that presentation reflects the substance of the transaction or event):
  - Disposal proceeds and carrying value on disposal of non-current investment and operating assets;
  - Expenditure and related reimbursement under a contractual agreement.
- Defined benefit plan expenses may be presented net of amounts recognised for a reimbursement
- Expense relating to a provision may be presented net of amounts recognised for a reimbursement

3.7 Comparative Information

Comparative information must be disclosed in respect of the previous period for all amounts reported in the financial statements, unless another Standard of GRAP requires or permits otherwise.

Comparative information should also be included for narrative and descriptive information when it is relevant to understand the current period's financial statements.

Comparative information should be reclassified when the presentation or reclassification of current period items are amended. Entities should disclose the nature, amount and reason for the reclassification. Refer to the Accounting Guideline on GRAP 3 for guidance on the adjustments to comparative information in the case of a change of accounting policy and correction of an error.

Example: Classification adjustment

Extract from the Notes to the annual financial statements

Restatement of comparative figures:

A receivable raised for grants not yet received, to the amount of R100,000 was incorrectly classified as receivables from exchange transactions during the previous financial year. The effect of the reclassification on the individual line items in the financial statements is as follows:

	20x1	20x0
Statement of financial position	**R**	**R**
Receivables from non-exchange transactions	-	100,000
Receivables from exchange transactions	-	(100,000)

Comparative narrative information need not be given if the information is no longer relevant. Where a legal dispute was outstanding at the previous reporting date and has still not been resolved, the financial statements for the current period should disclose details of that dispute and of the steps that have been taken to resolve the dispute.

If a legal dispute is settled during the year, it may be that the result of the dispute will need to be disclosed if it is considered that the related revenue and expenditure is of such size or nature that its separate disclosure is necessary to explain the entity's performance for the period.

4. Structure and content

GRAP 1 requires particular disclosures on the face of a statement[2] and/or in the notes to the financial statements. In considering these requirements, an entity should also refer to the *Guideline on the Application of Materiality to Financial Statements*.

Each component of the financial statements should be clearly identified and distinguished from other information in the annual report or other documents.

General information that should be displayed prominently and repeated on each page when it is necessary for a proper understanding of the information presented:

- Name of the reporting entity and any change in information from the previous reporting date;
- Whether the financial statements are for the individual or the economic entity;
- The reporting date for the financial statements;
- The presentation currency; and
- The level of rounding used in presenting amounts in the financial statements.

4.1 Reporting period

Financial statements should be presented at least annually.

When an entity's reporting date changes and the annual financial statements are presented for a period longer or shorter than 12 months, the following should be disclosed:

- The reason for using a longer or shorter period; and
- The fact that comparative amounts for certain statements are not entirely comparable.

This would be, for example, when legislation requires a change in reporting period.

[2] GRAP 2 on Cash Flow Statements sets out requirements for the presentation of a cash flow statement and specific disclosures related thereto.

5. Statement of Financial Position

A distinction should be made in the statement of financial position between current and non-current assets and current and non-current liabilities, except when presentation based on liquidity provides more relevant and reliable information. When this exception applies, an entity should present assets and liabilities broadly in order of their liquidity.

5.1 Current assets

An asset is classified as current when it satisfies any of the following criteria:

- The asset is expected to be realised in, or is held for sale or consumption in the entity's normal operating cycle, which may be shorter or longer than 12 months. When the normal operating cycle is not clearly identifiable, it is assumed to be twelve months;
- The asset is primarily held for trading purposes;
- The asset is expected to be realised within twelve months after reporting date; or
- It is a cash or 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.

All other assets which do not satisfy any of the above listed criteria should be classified as non-current assets.

5.2 Current liabilities

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

- The liability is expected to be settled in the entity's normal operating cycle (when the normal operating cycle is not clearly identifiable, it is assumed to be twelve months);
- The liability is primarily held for trading purposes;
- The liability is expected to be settled within twelve months after the reporting date; or
- The entity does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting date.

All other liabilities which do not satisfy any of the above listed criteria's should be classified as non-current liabilities.

6. Statement of Financial Performance

6.1 Surplus or deficit for the period

All revenue and expenses should be included in surplus or deficit, unless a standard of GRAP requires or permits otherwise.

6.2 Classifying expenses

Expenses can be classified based on either their **nature** or their **function**.

Analysing expenses by nature

Analysing expenses by nature identifies costs and expenses in terms of their character and groups expenses according to the kinds of economic benefits or service potential received in incurring those expenses, irrespective of their application in the entity's operations and/or where the expenses are incurred. The entity therefore analyses the direct goods or services acquired or assets consumed – i.e. the main inputs that are consumed in order to accomplish an entity's activities (what has been bought or used), and not the ultimate use thereof. For example, the entity will analyse expenses into categories such as depreciation, purchases of materials, transport costs, employee costs, advertising costs, etc. Under this method, the expenses are not allocated among various functions within the entity.

It has been observed that line items such as "repairs and maintenance", "grant expenditure", "contracted services" and "project expenditure" are presented separately in the financial statements where entities have chosen to present an analysis of expenses by nature. These line items usually consist of a combination of different elements of expenditure by nature. This presentation may not be in accordance with the requirements of GRAP 1 where the nature of expense method is chosen.

For example, it may be inappropriate to present the following:

- A line item "repairs and maintenance" that consists of different elements of expenses by nature, such as labour costs, consumable materials, other overhead costs, etc.
- A line item "grant expenditure" that consists of different elements of expenses by nature related to a specific grant, such as labour costs, raw materials, transport costs, administrative expenses, etc.
- A line item "contracted services" that consists of different services by nature, such as cleaning services, professional services, security services, etc. It may be particularly

inappropriate where "contracted services" includes the procurement of goods, such as cleaning materials, while a separate line item is presented for similar goods procured.

- A line item "project expenditure" that consists of different elements of expenses by nature, such as professional fees (engineers and valuers), labour costs, raw materials, electricity, water, lease of equipment, etc.

This incorrect presentation should be distinguished from when an entity procures a complete service from an outside party for e.g. maintenance services, project management services, etc. This may qualify for separate presentation when expenses are analysed by their nature as the entity has in this case procured a turn-key service. For example, if material, an entity could conclude it is appropriate to present a line item "maintenance services" where the entity procures a completed maintenance service from an outside party.

GRAP 1 does not require separate presentation of each material item in the statement of financial performance. An entity would need to assess what information is appropriate for the face of the statement compared to the notes. For example, an entity may determine it appropriate to present services procured as one item in the statement of financial performance, with information on each material service presented in the notes. Immaterial items should not be presented separately in the financial statements.

An entity should always consider if the information presented to users provides information about the nature of what the entity has procured, for material items separately.

Example: Classifying expenses by nature

A municipality commenced with the maintenance of a road the activities of which are carried out by the municipality with support from professional services specifically appointed for the project. To date (30 June) the municipality incurred costs and expenditure as follows:

Civil engineer (professional services)	R 150,000
Depreciation (machinery and equipment)	R 30,000
Salaries and allowances (municipal own staff)	R 335,000
Materials and supplies (consumed)	R 570,000
Total	**R1,085,000**

Assuming these amounts are material, the municipality discloses the expenditure by nature as follows:

Extract of Statement of Financial Performance	20x1	20x0
Expenditure		
Employee related costs	(335,000)	(XX)
Depreciation, Amortisation and Impairment	(30,000)	(XX)
Inventory Consumed	(570,000)	(XX)
Contracted Services	(150,000)	(XX)
Total Expenditure	**(1,085,000)**	**(XXX)**

Assume that the municipality outsourced the entire road maintenance to a 3rd party. For the purpose of this example, the total expenditure for work completed by the contracted party at 30 June amounts to R1,200,000. Assuming these amounts are material, the municipality discloses the expenditure by nature as follows:

Extract of Statement of Financial Performance	20x1	20x0
Expenditure		
Contracted Services	(1,200,000)	(XX)
Total Expenditure	**(1,200,000)**	**(XXX)**

Analysing expenses by function

The function of expense method analyses expenses according to the programme, activity from which the item arises, or purpose for which they were incurred. For example, health expenses, education expenses, administrative expenses, etc. GRAP 1 requires entities that analyse expenses by function to also disclose additional information about the nature of those expenses.

Unlike the nature of expense method, an entity that presents its expenses based on the entity's functions will allocate the elements of expenses such as "labour costs", "consumable material" and "transport costs", among the functions of the entity, for example, "water", "electricity", "roads", "housing" and "administration" functions are presented, with each function including its share of total expenses.

It is unlikely that an entity has functions such as "repairs and maintenance", "grant expenditure", "contracted services" and "project expenditure" that are presented separately in a statement of financial performance presented by function; however, it would need to be assessed. An entity that has, for example, a repairs and maintenance function for a large asset base that is maintained in-house through an internal works department, which is significant, may conclude that "repairs and maintenance" is a function that should be presented separately.

An entity that previously incorrectly presented line items that combine different elements of expenditure by nature on the face of the statement of financial performance, e.g. "repairs and maintenance", "project expenditure", "grant expenditure" and "contracted services", should reclassify these items by either the nature or function thereof, depending on the entity's choice of presentation. The comparative amounts should also be restated, and information about the nature, amount, and reason of reclassification disclosed, as required by GRAP.

Example: Classifying expenses by function

A municipality commenced with the maintenance of a road the activities of which are carried out by the municipality with support from professional services specifically appointed for the project. To date (30 June) the municipality incurred costs and expenditure as follows:

Civil engineer (professional services)	R 150,000
Depreciation (machinery and equipment)	R 30,000
Salaries and allowances (municipal own staff)	R 335,000
Materials and supplies (consumed)	R 570,000
Total	**R1,085,000**

Assuming these amounts are material, the municipality discloses the expenditure by function as follows:

Extract of Statement of Financial Performance	20x1	20x0
Expenditure		
Road Transport	(1,085,000)	**(XXX)**
Total Expenditure	**(1,085,000)**	**(XXX)**

Specific presentation requirements in the Standards of GRAP

Standards of GRAP may require specific items to be presented in the financial statements. Questions have been asked about where and how this information should be presented, if presenting certain items as a separate line item in the statement of financial performance is inappropriate.

To determine how to appropriately present information where a Standard of GRAP requires specific items to be presented separately, the requirements of the various Standards of GRAP should be read together.

For example, GRAP 1 states the following regarding information to be presented either on the face of the statement of financial performance or in the notes:

> *".101 When items of revenue and expense are material, their nature and amount shall be disclosed separately.*
>
> *.102 Circumstances that would give rise to the separate disclosure of items of revenue and expense include:*
>
> *(c) expenditure incurred on assets to repair and maintain them."*

The Standard of GRAP on Property Plant and Equipment (GRAP 17), states that the following presentation should be made in the notes:

> *".88 An entity shall separately disclose expenditure incurred to repair and maintain property, plant and equipment in the notes to the financial statements.*
>
> *.89 As entities may apply different bases for determining expenditure on repairs and maintenance, an entity shall disclose information about the specific costs included in the amount of repairs and maintenance disclosed in the notes. In determining the amount disclosed in the notes to the financial statements on expenditure incurred to repair and maintain property, plant and equipment, an entity may include amounts paid to service providers, as well as amounts spent on materials and time spent by employees in repairing and maintaining the asset(s)."*

When reading the requirements of GRAP 1.102(c) and GRAP 17.88 and .89 together, an entity that incurs material expenditure to repair and maintain assets, and concludes it is inappropriate to present a separate line item in the statement of financial performance, will disclose the information in the notes.

An entity that concludes it is appropriate to include a “repairs and maintenance” line item in the statement of financial performance, will present a “repairs and maintenance” line item according to nature or function for all repairs and maintenance incurred. The entity will present the information required by GRAP 17.88 and .89 in the notes, for property, plant and equipment only, and including the specific costs the entity determines to be appropriate.

7. Statement of Changes in Net Assets

The change in an entity's net assets between two reporting periods reflects the increase or decrease in its net assets for that period.

The overall change in the net assets represents:

- Total surplus or deficit for the period;
- Revenue or expenses directly recognised as a change in net assets; and
- Contributions by and distribution to owners in their capacity as owners.

All items of revenue and expense recognised in a period are required to be included in surplus or deficit, unless another Standard of GRAP requires otherwise.

Some items, such as revaluation surpluses and deficits are required to be recognised directly as changes in net assets, this will be the case when an entity adopts the revaluation model under GRAP 17 on *Property, Plant and Equipment*[3]. This will then give rise to a revaluation reserve in the statement of changes in net assets.

Statute or law may require the creation of reserves in order to give to the entity and their creditors an added measure of protection from the effects of future losses. For example municipalities have many reserves that are required by statute and law.

An entity is only allowed to create other reserves (other than those addressed specifically in the standards of GRAP, e.g. revaluation reserve) out of the accumulated surplus. The journal entry will be as follows:

20x0	Debit	Credit
	R	**R**
Accumulated surplus	xxx	
'Reserve'		xxx

8. Cash Flow Statement

The purpose of a cash flow statement is to provide information regarding the entity's ability to use and or generate cash and cash equivalents.

For more detail regarding cash flows refer to GRAP 2 on Cash Flow Statements and the Accounting Guideline on GRAP 2.

[3] Similarly where an entity applies the revaluation model under GRAP 31 on *Intangible Assets* or GRAP 103 on *Heritage Assets*.

9. Notes

Notes to the financial statements can be classified into two sections:

Notes that support the line items in the statement of financial position, statement of financial performance, statement of change in net assets and the cash flow statement

- These notes include for example, notes on property, plant and equipment and cash and cash equivalents, etc

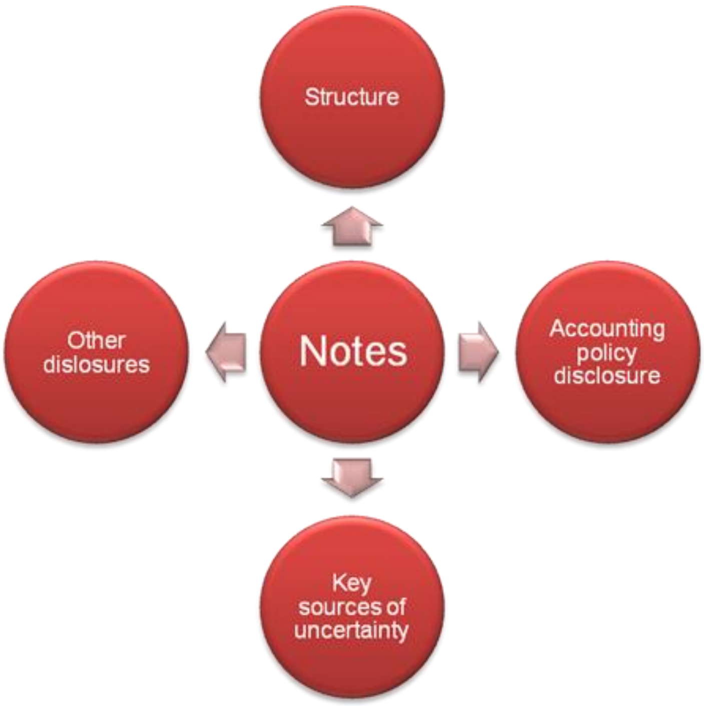
Notes that do not necessarily relate to line items in the financial statements

- These notes include, for example, the accounting policies, contingent liabilities, and non-financial disclosures such as an entity's financial risk management policy and procedures, etc

Each line item on the face of the statement of financial position and statement of financial performance should have an accompanying note when:

- It is significant by nature or amount;
- Additional disclosures are specifically required by a standard of GRAP; and
- Additional information is relevant to understand a specific line item.

The disclosure of notes can be grouped into 4 major groups as illustrated in the figure below:



Notes should:

- provide information about the basis of preparation and the specific accounting policies used;
- provide the information required by the standards of GRAP; and or legislation;
- provide additional information not presented on the face of the financial statements; and
- be cross-referenced to the lines items on the face of the statement of financial position (where relevant, statement of financial performance, statement of change in net assets and the cash flow statement.

10. Key sources of uncertainty

The use of accounting estimates is an essential part of the preparation of financial statements. Determining the carrying amount of some assets and liabilities requires estimation of the effect of uncertain future events on the assets and liabilities at the reporting date. The estimates involve certain assumptions, such as: what discount rate to use, future cash flows, what risk rate should be used to adjust future cash flows and future changes in prices.

The key sources of estimation uncertainty that could cause a material adjustment to the carrying amount of assets and liabilities in the next period should be disclosed. These assumptions and uncertainty needs to be disclosed in such a way that the users of the financial statements understand the judgments made by management.

Examples of estimations can include:

- estimation of the amount of inventory to be written off due to obsolescence;
- the fair value of accounts receivable and payable;
- the useful lives and residual values (refer to GRAP 17 on *Property, Plant and Equipment*); and
- the estimation of the amount for provisions such as provision for rehabilitation of landfill sites (refer to GRAP 19 on *Provisions, Contingent Liabilities and Contingent Assets*).

Examples of judgements can include determining:

- whether assets are investment properties;
- when substantially all the significant risks and rewards of ownership of financial assets and lease assets are transferred to other entities; and

- whether certain sales of goods constitute financing arrangements in substance and therefore do not give rise to revenue.

Remember that in disclosing information on key estimation uncertainty and judgements made, the entity should not only disclose the nature of these, but also the reasons why there is uncertainty and the impact it has on the amounts presented in the financial statements to which it relates.

11. Useful links and references

Reference	Location of reference
Frequently Asked Questions (**FAQs**) on the Standards of GRAP	ASB website: http://www.asb.co.za/frequently-asked-questions/
IGRAP 2 on *Changes in Existing Decommissioning, Restoration and Similar Liabilities*	ASB website: http://www.asb.co.za/interpretations-approved-and-effective/
IGRAP 7 on *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*	
IGRAP 8 on *Agreements for the Construction of Assets from Exchange Transactions*	
IGRAP 9 on *Distributions of Non-cash Assets to Owners*	
IGRAP 13 on *Operating Leases – Incentives*	
IGRAP 16 on *Intangible Assets – Website Costs*	
IGRAP 18 on *Recognition and Derecognition of Land*	
IGRAP 19 on *Liabilities to Pay Levies*	
Guideline on The Application of Materiality to Financial Statements	ASB website: http://www.asb.co.za/guidelines/
Standard Chart of Accounts for Local Government (**mSCOA**)	National Treasury website: http://mfma.treasury.gov.za (mSCOA – Municipal Standard Chart of Accounts)
Illustrative Financial Statements for local government	National Treasury website: http://mfma.treasury.gov.za (mSCOA – Municipal Standard Chart of Accounts)