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## GOVERNMENT NOTICE

### DEPARTMENT OF NATIONAL TREASURY

No. R. 551

10 July 2014

#### PUBLIC FINANCE MANAGEMENT ACT, 1999 REGULATIONS PRESCRIBING STANDARDS OF GENERALLY RECOGNISED ACCOUNTING PRACTICE

The Minister of Finance has, in terms of section 91 of the Public Finance Management Act, 1999 (Act No. 1 of 1999 – “the Act”), and with effect from 1 April 2015, made regulations-

- (a) prescribing the following standards as set by the Accounting Standards Board in terms of section 89 of the Act and set out in the specified Schedule:

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- (b) applicable in respect of-
- (i) GRAP 18, to public entities listed in Parts A and C of Schedule 3 to the Act and constitutional institutions listed in Schedule 1 to the Act; and
  - (ii) GRAP 105, 106 and 107, to public entities listed in Parts A and C of Schedule 3 to the Act, constitutional institutions listed in Schedule 1 to the Act and municipalities and the entities under the ownership control of a municipality, referred to in section 89(1)(a)(iv) of the Act.

**SCHEDULE 1**  
**GRAP 18 – SEGMENT REPORTING**



Accounting Standards Board



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GRAP 18

## ACCOUNTING STANDARDS BOARD

### STANDARD OF GENERALLY RECOGNISED ACCOUNTING PRACTICE

#### SEGMENT REPORTING

(GRAP 18)

#### Acknowledgement

The Standard of GRAP on *Segment Reporting* is drawn primarily from the International Financial Reporting Standard on *Operating Segments* (IFRS 8) issued by the International Accounting Standards Board (IASB). The approved text of the IFRS is that published by the IASB in the English language and copies may be obtained from:

IFRS Foundation  
30 Cannon Street  
London, EC4M 6XH  
United Kingdom  
Internet: <http://www.ifrs.org>

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This Standard of Generally Recognised Accounting Practice (GRAP) has also drawn from the International Public Sector Accounting Standard (IPSAS) on *Segment Reporting* issued by the International Federation of Accountants' International Public Sector Accounting Standards Board (IPSASB). The International Federation of Accountants (IFAC) was founded in 1977 with its mission to develop and enhance the profession with harmonised standards. IPSASB has issued a comprehensive body of IPSASs, which will be used to produce future Standards of GRAP. Extracts of the IPSAS on *Segment Reporting* are reproduced in this Standard of GRAP with the permission of the IPSASB.

The approved text of the IPSASs is that published by the IFAC in the English language. The IPSASs are contained in the IFAC Handbook of International Public Sector Accounting Pronouncements and are available from:

International Federation of Accountants  
545 Fifth Avenue, 14th Floor  
New York, New York 10017 USA  
Internet: <http://www.ifac.org>

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Accounting Standards Board  
February 2011

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Accounting Standards Board

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**GRAP 18****SEGMENT REPORTING****Introduction****Standards of Generally Recognised Accounting Practice**

The Accounting Standards Board (the Board) is required, in terms of the Public Finance Management Act, Act No. 1 of 1999, as amended (PFMA), to determine generally recognised accounting practice referred to as Standards of Generally Recognised Accounting Practice (GRAP).

The Board must determine GRAP for:

- (a) departments (including national and provincial and government components);
- (b) public entities;
- (c) trading entities (as defined in the PFMA);
- (d) constitutional institutions;
- (e) municipalities and boards, commissions, companies, corporations, funds or other entities under the ownership control of a municipality; and
- (f) Parliament and the provincial legislatures.

The above are collectively referred to as "entities" in Standards of GRAP.

The Board has approved the application of Statements of Generally Accepted Accounting Practice (GAAP), as codified by the Accounting Practices Board and issued by the South African Institute of Chartered Accountants as at 1 April 2012, to be GRAP for:

- (a) government business enterprises (as defined in the PFMA);
- (b) any other entity, other than a municipality, whose ordinary shares, potential ordinary shares or debt are publicly tradable on the capital markets; and
- (c) entities under the ownership control of any of these entities.

The Board has approved the application of International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board to be GRAP for these entities where they are applying IFRSs.

Financial statements should be described as complying with Standards of GRAP only if they comply with all the requirements of each applicable Standard of GRAP and any related Interpretations of the Standards of GRAP.

Any limitation of the applicability of specific Standards is made clear in those Standards.

The Standard of GRAP on *Segment Reporting* is set out in paragraphs .01 to .35. All paragraphs in this Standard of GRAP have equal authority. The status and authority of appendices are dealt with in the preamble to each appendix. This Standard should be read in the context of its objective, its basis for conclusions if applicable, the *Preface to Standards of*

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*GRAP, the Preface to the Interpretations of the Standards of GRAP and the Framework for the Preparation and Presentation of Financial Statements.*

Standards of GRAP should also be read in conjunction with any directives issued by the Board prescribing transitional provisions, as well as any regulations issued by the Minister of Finance regarding the effective dates of the Standards of GRAP, published in the Government Gazette.

Reference may be made here to a Standard of GRAP that has not been issued at the time of issue of this Standard. This is done to avoid having to change the Standards already issued when a later Standard is subsequently issued. Paragraph .11 of the Standard of GRAP on *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

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## Objective

- .01 The objective of this Standard is to establish principles for reporting financial information by segments. The disclosure of this information will:
- enable users of the financial statements to better understand the entity's past performance, to evaluate the nature and financial effects of the activities in which it engages and the economic environments in which it operates;
  - identify the resources allocated to support the major activities of the entity and assist in making decisions about the allocation of resources; and
  - enhance the transparency of financial reporting and enable the entity to better discharge its accountability obligations.

## Scope

- .02 **An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in the presentation of segment information.**
- .03 **This Standard shall apply to the separate or individual financial statements of an entity and the consolidated financial statements of an economic entity.**
- .04 If a financial report contains both the consolidated financial statements and the separate financial statements of a controlling entity, segment information is required only in the consolidated financial statements.

## Definitions

- .05 **The following terms are used in this Standard with the meanings specified:**
- Management comprises those persons responsible for planning, directing and controlling the activities of the entity, including those charged with the governance of the entity in accordance with legislation, in instances where they are required to perform such functions.**
- A segment is an activity of an entity :**
- that generates economic benefits or service potential (including economic benefits or service potential relating to transactions between activities of the same entity);
  - whose results are regularly reviewed by management to make decisions about resources to be allocated to that activity and in assessing its performance; and

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- (c) for which separate financial information is available.  
**Terms defined in other Standards of GRAP are used in this Standard with the same meaning as in those other Standards.**

## Segments

- .06 Entities control significant public resources and operate to provide a wide variety of goods and services in different geographical areas and in regions with differing socio-economic characteristics. Entities are required to use allocated resources efficiently and effectively to achieve their objectives. Entity-wide and consolidated financial statements provide an overview of the assets controlled and liabilities incurred by the reporting entity, the cost of services provided and the taxation revenue, budget allocations and cost recoveries generated to fund the provision of those services. However, this aggregated information may not provide information about the specific operational objectives and major activities of the reporting entity and the resources devoted to and costs of those objectives and activities.
- .07 Because the activities of the entity are often very broad, and are undertaken in a wide range of different geographical areas with different socio-economic characteristics, it is necessary to report disaggregated financial and non-financial information about particular segments of the entity. This provides relevant information for accountability and decision-making purposes.
- .08 Not every part of an entity is necessarily a segment or part of a segment. For example, an administrative unit or functional department may not undertake activities of an entity that generates economic benefits or service potential. As a result, these activities may not be regularly reviewed by the management of the entity. These activities are not reported as segments as they do not meet the definition of a segment in paragraph .05.
- .09 For the purposes of this Standard, an entity's post-employment benefit plans are not segments.
- .10 Many entities are able to clearly identify their segments based on the definition of a segment in paragraph .05. However, an entity may produce reports in which its activities are presented in a variety of ways. If management uses more than one set of segment information, other factors may identify a single set of activities as constituting an entity's segments, including the nature of these activities, the existence of managers responsible for them, and other information presented to them.
- .11 The characteristics of a segment in paragraph .05 may apply to two or more overlapping sets of activities for which managers are held responsible. Such a structure is sometimes referred to as a matrix form of organisation. For example, in certain entities, some managers are responsible for different goods and service lines

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across geographical areas, whereas others are responsible for specific geographical areas. Management may regularly review the results of both sets of components, and financial information is available for both.

.12 Reporting on more than one type of segment in the external financial statements may provide useful information if the achievement of an entity's objectives is strongly affected by the different types of segments.

.13 Where an entity identifies more than one set of segments, as described in paragraph .11, they may be reported separately or as a matrix. In addition, a primary and secondary segment reporting structure may be adopted with only limited disclosures made about secondary segments.

**Reportable segments**

.14 *An entity shall report separately information about each segment that has been identified in accordance with paragraphs .06 to .13 or results from aggregating two or more of those segments in accordance with paragraph .15.*

**Aggregation criteria**

.15 An entity may combine segments if the segments have similar economic characteristics and share a majority of the aggregation criteria listed in paragraph .16 or are individually insignificant and a practical limit has been reached in accordance with paragraph .17.

.16 Two or more segments may be aggregated into a single segment if aggregation is consistent with the objective of this Standard and the segments have similar economic characteristics, and the segments share a majority of the following:

- (a) the nature of the goods and/or services delivered;
- (b) the type or class of customer or consumer to which goods and services are delivered;
- (c) the methods used to distribute the goods or provide the services; or
- (d) if applicable, the nature of the regulatory environment that applies to the segment.

.17 There may be a practical limit to the number of reportable segments that an entity separately discloses beyond which segment information becomes too detailed. Although no precise limit has been determined, if the number of segments that are reportable in accordance with paragraph .14 increases to more than ten, the entity should consider whether additional segmentation provides useful and relevant information.

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**GRAP 18****Disclosure**

.18 *An entity shall disclose information to enable users of its financial statements to evaluate the nature and financial effects of the activities in which it engages and the economic environments in which it operates.*

.19 *To give effect to the principle in paragraph .18, an entity shall disclose the following:*

- (a) *general information as described in paragraph .20;*
- (b) *information about reported segment surplus or deficit, including specified revenues and expenses included in reported segment surplus or deficit, segment assets, segment liabilities and the basis of measurement, as described in paragraphs .21 to .23; and*
- (c) *reconciliations of the totals of segment revenues, reported segment surplus or deficit, segment assets, segment liabilities and other material segment items to corresponding entity amounts as described in paragraph .27.*

*Reconciliations of the amounts in the statement of financial position for reportable segments to the amounts in the entity's statement of financial position are required for each date at which a statement of financial position is presented. Information for prior periods shall be restated as described in paragraphs .28 and .29.*

**General information**

.20 *An entity shall disclose the following general information:*

- (a) *factors used to identify the entity's reportable segments, including the basis of organisation (for example, whether management has chosen to organise the entity around differences in goods and/or services, geographical areas, regulatory environments, or a combination of factors);*
- (b) *whether segments have been aggregated and the basis of the aggregation; and*
- (c) *types of goods and/or services delivered by each segment.*

**Information about surplus or deficit, assets and liabilities**

.21 *An entity shall report a measure of surplus or deficit for each reportable segment. An entity shall report a measure of assets and liabilities for each reportable segment if such an amount is regularly provided to management. An entity shall also disclose the following about each reportable segment if the specified amounts are included in the measure of segment surplus or deficit*

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reviewed by management, or are otherwise regularly provided to management, even if not included in that measure of segment surplus or deficit:

- (a) external revenue from non-exchange transactions;
- (b) external revenue from exchange transactions;
- (c) revenue from transactions with other segments in the same entity;
- (d) interest revenue;
- (e) interest expense;
- (f) depreciation and amortisation;
- (g) material items of revenue and expenses disclosed in accordance with paragraph .97 of the Standard of GRAP on Presentation of Financial Statements (2010);
- (h) the entity's interest in the surplus or deficit of associates and joint ventures accounted for by the equity method;
- (i) income tax expenses (if applicable); and
- (j) material non-cash items other than depreciation and amortisation.

.22 An entity shall report interest revenue separately from interest expense for each segment reported unless a majority of the segment's revenue is from interest, and management relies primarily on net interest revenue to assess the performance of the segment and make decisions about resources to be allocated to the segment. In such a situation an entity may report segment interest revenue net of interest expense and then disclose that it has done so.

.23 An entity shall disclose the following about each reportable segment if the specified amounts are included in the measure of segment assets reviewed by management or are otherwise regularly provided to management, even if not included in the measure of segment assets:

- (a) the amount of investment in associates and joint ventures accounted for by the equity method; and
- (b) the amounts of additions to non-current assets<sup>1</sup> other than financial instruments, deferred tax assets (where applicable), post-employment benefit assets (see Standard of GRAP on Employee Benefits) and rights arising under insurance contracts.

## Measurement

.24 The amount of each segment item reported shall be the measure reported to

<sup>1</sup> For assets classified according to a liquidity presentation, non-current assets are assets that include amounts expected to be recovered more than twelve months after the reporting period.

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management for the purposes of making decisions about allocating resources to the segment and assessing its performance. Adjustments and eliminations made in preparing an entity's financial statements and allocations of revenues and expenses shall be included in determining reported segment surplus or deficit only if they are included in the measure of the segment's surplus or deficit that is used by management. Similarly, only those assets and liabilities that are included in the measures of the segment's assets and segment's liabilities that are used by management shall be reported for that segment. If amounts are allocated to reported segment surplus or deficit, assets or liabilities, those amounts shall be allocated on a reasonable basis.

.25 If management uses only one measure of a segment's surplus or deficit, the segment's assets or the segment's liabilities in assessing segment performance and deciding how to allocate resources, segment surplus or deficit, assets and liabilities shall be reported in terms of that measure. If management uses more than one measure of a segment's surplus or deficit, the segment's assets or the segment's liabilities, the reported measures shall be those that management believes are determined in accordance with the measurement principles most consistent with those used in measuring the corresponding amounts in the entity's financial statements.

.26 An entity shall provide an explanation of the measurements of segment surplus or deficit, segment assets and segment liabilities for each reportable segment. An entity shall disclose at least the following:

- (a) The basis of accounting for any transactions between reportable segments.
- (b) The nature of any differences between the measurements of the reportable segments' surplus or deficit and the entity's surplus or deficit and discontinued operations (if not apparent from the reconciliations described in paragraph .27). Those differences could include accounting policies and policies for allocation of centrally incurred costs that are necessary for an understanding of the reported segment information.
- (c) The nature of any differences between the measurements of the reportable segments' assets and the entity's assets (if not apparent from the reconciliations described in paragraph .27). Those differences could include accounting policies and policies for allocation of jointly-used assets that are necessary for an understanding of the reported segment information.
- (d) The nature of any differences between the measurements of the reportable segments' liabilities and the entity's liabilities (if not apparent from the reconciliations described in paragraph .27). Those differences could include accounting policies and policies for allocation of jointly-utilised liabilities that are necessary for an understanding of the reported segment information.

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- information.*
- (e) The nature of any changes from prior periods in the measurement methods used to determine reported segment surplus or deficit and the effect, if any, of those changes on the measure of segment surplus or deficit.
- (f) The nature and effect of any asymmetrical allocations to reportable segments. For example, an entity might allocate depreciation expense to a segment without allocating the related depreciable assets to that segment.

#### Reconciliations

- .27 An entity shall provide reconciliations of all of the following:
- (a) The total of the reportable segments' revenues to the entity's revenue.
- (b) The total of the reportable segments' measures of surplus or deficit to the entity's surplus or deficit before discontinued operations. However, if an entity allocates to reportable segments items such as tax expense (if applicable), the entity may reconcile the total of the segments' measures of surplus or deficit to the entity's surplus or deficit after those items.
- (c) The total of the reportable segments' assets to the entity's assets if segment assets are reported in accordance with paragraph .21.
- (d) The total of the reportable segments' liabilities to the entity's liabilities if segment liabilities are reported in accordance with paragraph .21.
- (e) The total of the reportable segments' amounts for every other material item of information disclosed to the corresponding amount for the entity.
- All material reconciling items shall be separately identified and described. For example, the amount of each material adjustment needed to reconcile reportable segment surplus or deficit to the entity's surplus or deficit arising from different accounting policies shall be separately identified and described.

#### Restatement of previously reported information

- .28 If an entity changes the structure of its internal organisation in a manner that causes the composition of its reportable segments to change, the corresponding information for earlier periods shall be restated unless the information is not available and the cost to develop it would be excessive. The determination of whether the information is not available and the cost to develop it would be excessive shall be made for each individual item of disclosure. Following a change in the composition of its reportable segments, an entity shall disclose whether it has restated the corresponding items of segment information for earlier periods.

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- .29 If an entity has changed the structure of its internal organisation in a manner that causes the composition of its reportable segments to change and if segment information for earlier periods is not restated to reflect the change, the entity shall disclose segment information for the current period on both the old basis and the new basis of segmentation unless the necessary information is not available and the cost to develop it would be excessive. This shall be done in the year in which the change occurs.

#### Entity-wide disclosures

- .30 Paragraphs .31 to .32 apply to all entities, including those that have a single reportable segment. Some entities' activities are not organised on the basis of differences in geographical areas of operations. Information required by paragraphs .31 to .32 shall be provided only if it is not provided as part of the reportable segment information required by this Standard or if it is not reported elsewhere in the financial report.

#### Information about geographical areas

- .31 An entity shall disclose the geographical areas in which it operates that are relevant for decision-making purposes, including any foreign countries.
- .32 An entity shall report the following geographical information, unless the necessary information is not available and the cost to develop it would be excessive:
- (a) external revenues from non-exchange transactions and external revenues from exchange transactions attributed to the geographical areas in which it operates;
- (b) total expenditure attributed to the geographical areas; and
- (c) non-current assets<sup>2</sup> other than financial instruments, deferred tax assets (where applicable), post-employment benefit assets, and rights arising under insurance contracts for the geographical areas.

The amounts reported shall be based on the financial information that is used to produce the entity's financial statements. If the necessary information is not available and the cost to develop it would be excessive, that fact shall be disclosed. An entity may provide subtotals of geographical information for groups of geographical areas.

<sup>2</sup> For assets classified according to a liquidity presentation, non-current assets are assets that include amounts expected to be recovered more than twelve months after the reporting period.

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### Transitional provisions

- .33 *The transitional provisions to be applied by entities on the initial adoption of this Standard are prescribed in a directive(s). The provisions of this Standard should be read in conjunction with each applicable directive.*

### Effective date

- .34 *An entity shall apply this Standard of GRAP for annual financial statements covering periods beginning on or after a date to be determined by the Minister of Finance in a regulation to be published in accordance with section 91(1)(b) of the Public Finance Management Act No. 1 of 1999 as amended.*

### Withdrawal of the Standard of GRAP on Segment Reporting (2005)

- .35 This Standard supersedes the Standard of GRAP on Segment Reporting issued in March 2005.

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### Appendix 1 - Illustrative segment disclosures

*The appendix is illustrative only and does not form part of the Standard. The purpose of the appendix is to illustrate the application of the Standard to assist in clarifying its meaning.*

#### Introduction

The tables and notes illustrate segment disclosures that this Standard would require for an education entity which is predominantly funded by appropriation but provides some educational services on a commercial basis to the employees of major corporations, and that has joined with a commercial venture to establish a private education foundation operating on a commercial basis. The entity has significant influence over the foundation, but does not control it.

Segment data is required for each year in which a complete set of financial statements is presented. Paragraph references are to the relevant requirements in this Standard.

#### General information (paragraph .20)

The entity is organised and reports to management on the basis of four major functional areas: primary, secondary, tertiary, and special educational services. The segments were organised around the type of service delivered and the target market. Management uses these same segments for determining strategic objectives. Segments were not aggregated for reporting purposes.

Operations of the special education services segments include provision of educational services on a commercial basis to the employees of major corporations. In providing these services to external parties the commercial services unit of the segment uses, on a fee for services basis, services provided by the primary, secondary and tertiary segments. These inter-segment transfers are eliminated on consolidation.

Information reported about these segments is used by management as a basis for evaluating the segments' performances and for making decisions about the allocation of resources. The disclosure of information about these segments is also considered appropriate for external reporting purposes.

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**GRAP 18**  
**Information about surplus or deficits, assets and liabilities (paragraphs .21 and .23) and reconciliations (paragraph .27)**

20X2 R'000	Primary	Secondary	Tertiary	Special Services	Eliminations	TOTAL
<b>REVENUE</b>						
Revenue from non-exchange transactions	29	19	22	17		87
Revenue from exchange transactions	3	2	-	9		14
Inter-segment transfers	6	4	6	4	(20)	8
Share of surpluses of associates						
<b>Total segment revenue</b>	<b>38</b>	<b>25</b>	<b>28</b>	<b>38</b>	<b>(20)</b>	<b>109</b>
<b>EXPENSES</b>						
Salaries and wages	(23)	(16)	(13)	(15)		(67)
Depreciation and amortisation	(5)	(4)	(5)	(6)		(20)
Other expenses	(7)	(5)	(10)	(7)	20	(9)
<b>Total segment expenses</b>	<b>(35)</b>	<b>(25)</b>	<b>(28)</b>	<b>(28)</b>	<b>20</b>	<b>(96)</b>
<b>Total segmental surplus</b>	<b>3</b>	<b>-</b>	<b>-</b>	<b>10</b>	<b>-</b>	<b>13</b>
Interest revenue						
Other unallocated revenue						
Interest expense						
Unallocated expenses						
<b>Surplus for the period</b>	<b>3</b>	<b>-</b>	<b>-</b>	<b>10</b>	<b>-</b>	<b>13</b>
<b>ASSETS</b>						
Segment assets	32	22	34	20		108
Investment in associates (equity method)						
Unallocated assets						
<b>Total assets</b>	<b>32</b>	<b>22</b>	<b>34</b>	<b>32</b>	<b>-</b>	<b>120</b>
<b>LIABILITIES</b>						
Segment liabilities	15	10	8	9		42
Unallocated liabilities						
<b>Total liabilities</b>	<b>15</b>	<b>10</b>	<b>8</b>	<b>9</b>	<b>-</b>	<b>42</b>
<b>OTHER INFORMATION</b>						
Capital expenditure	7	5	3	7		22
Non-cash items excluding Depreciation	(5)	(3)	(3)	(3)		(14)
Accrued expenses	0	0	-	1		1
Deferred revenue						

\* Excluding additions to financial instruments and post-employment benefit assets



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20X1 R'000	Primary	Secondary	Tertiary	Special Services	Eliminations	TOTAL
<b>SEGMENT REVENUE</b>						
Revenue from non-exchange transactions	24	16	23	17		80
Revenue from exchange transactions	2	2	-	6		10
Inter-segment transfers	4	2	7	6	(19)	-
Share of surpluses of associates						
<b>Total segment revenue</b>	<b>30</b>	<b>20</b>	<b>30</b>	<b>36</b>	<b>19</b>	<b>97</b>
<b>SEGMENT EXPENSE</b>						
Salaries and wages	(19)	(12)	(13)	(15)		(59)
Depreciation and amortisation	(4)	(3)	(7)	(4)		(18)
Other expenses	(7)	(4)	(9)	(7)	19	(8)
<b>Total segment expenses</b>	<b>(30)</b>	<b>(19)</b>	<b>(29)</b>	<b>(26)</b>	<b>19</b>	<b>(85)</b>
Interest revenue						
Other unallocated revenue						
Interest expense						
Unallocated expenses						
<b>Surplus for the period</b>	<b>-</b>	<b>1</b>	<b>1</b>	<b>10</b>	<b>-</b>	<b>10</b>
<b>ASSETS</b>						
Segment assets	0	0				0
Investment in associates (equity method)	30	20	30	19		99
Unallocated assets						
<b>Total assets</b>	<b>30</b>	<b>20</b>	<b>30</b>	<b>26</b>	<b>-</b>	<b>116</b>
<b>LIABILITIES</b>						
Segment liabilities	9	6	11	9		35
Unallocated liabilities						
<b>Total liabilities</b>	<b>9</b>	<b>6</b>	<b>11</b>	<b>9</b>	<b>-</b>	<b>35</b>
<b>OTHER INFORMATION</b>						
Capital expenditure	6	4	5	3		18
Non-cash items excluding Depreciation	(1)	(1)	(3)	(3)		(8)
Accrued expenses						
Deferred revenue						



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**Measurement of segment surplus or deficit, assets and liabilities (paragraphs .24 to .26)**

The accounting policies of the segments are the same as those described in the summary of significant accounting policies, except that pension expense for each segment is recognised and measured on the basis of cash payments to the pension plan.

Inter-segment transfers: segment revenue and segment expense include revenue and expense arising from transfers between segments. Such transfers are usually accounted for at cost and are eliminated on consolidation. The amount of these transfers was R20-million (R19-million in 20X1).

Investments in associates are accounted for using the equity method; the entity owns 40% of the shares of AfricaED Ltd, a specialist education foundation providing educational services internationally on a commercial basis under contract to multilateral lending agencies. The investment in, and the entity's share of, AfricaED's net profit are excluded from segment assets and segment revenue. It is shown separately under other services, the segment responsible for the administration of the investment in the associate.

**Information about geographical areas (paragraphs .31 and .32)**

The majority of the entity's operations are in the Gauteng Province except that as part of an aid programme it has established facilities in East Africa for the provision of secondary educational services. Total cost of services provided in East Africa is R5-million (R4-million in 20X1). Total carrying amount of the educational facilities in East Africa are R3-million (R6.5-million in 20X1). There were no outlays on the acquisition of capital assets in East Africa during 20X2 or 20X1. Revenues are not allocated per geographical area.

The table below indicate the expenditure incurred in the different regional areas after eliminating inter segmental transfers.

R'000	20x2	20X1
<i>Gauteng Province</i>		
Region A	44	41
Region B	19	16
Region C	28	24
<i>Sub total</i>	91	81
<i>Foreign expenditure – East Africa</i>	5	4
<i>Total segment expenditure</i>	96	85

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**Appendix 2 – Consequential amendments to Standards of GRAP**

*The purpose of the appendix is to identify the consequential amendments to the other Standards of GRAP resulting from the issue of this Standard.*

Amended text is shown with new text underlined and deleted text struck through.

**Amendments to other Standards of GRAP****The Standard of GRAP on Cash Flow Statements (Issued 2010)**

A1. Amend the following paragraph in GRAP 2

.51 Additional information may be relevant to users in understanding the financial position and liquidity of an entity. Disclosure of this information, together with a commentary by management, is encouraged and may include:

- (a) the amount of undrawn borrowing facilities that may be available for future operating activities and to settle capital commitments, indicating any restrictions on the use of these facilities;
- (b) the aggregate amounts of the cash flows from each of operating, investing and financing activities related to interests in joint ventures reported using proportionate consolidation; and
- (c) the amount and nature of restricted cash balances; and
- (d) the amount of the cash flows arising from the operating, investing and financing activities of each reportable segment (see the Standard of GRAP on Segment Reporting).

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- BC7. The Board did not adopt the threshold approach in IFRS 8 to identify reportable segments. The Board believes that the threshold approach may result in the non-disclosure of relevant information in the public sector.
- BC8. The Board believes that it is useful to aggregate certain segments, but did not regard the criteria in IFRS 8 to be helpful in the public sector. Aggregating segment information may be helpful especially where these segments relate to achieving the same objectives or the objectives are very similar and aggregate disclosures would not jeopardise decision useful information. The Board amended the criteria in IFRS 8 for public sector purposes.

**General disclosure requirements**

- BC9. The Board adopted the general disclosure requirements of IFRS 8, but amended it for public sector specific reasons. IFRS 8 focuses on revenue generation activities. Although information about this is relevant, public sector entities are more interested in the expenditure per segment. Also, the reliance on budget allocations and other revenues from non-exchange transactions are more relevant.

**Entity wide disclosures**

- BC10. The Board did not believe that the entity-wide disclosures as envisaged in IFRS 8 would add value in the public sector. The goods and/or services that an entity delivers form part of its mandate and the reliance on a major "revenue source" is common in the public sector. The users of the financial statements are already familiar with these when evaluating an entity's financial statements. The Board also did not believe that the IFRS requirement to report only on "foreign versus domestic revenues" is relevant since most entities only operate domestically.
- BC11. As a result, the Board adopted and amended the IFRS 8 disclosure requirement for geographical areas to be more relevant for the local needs of users of financial statements and did not require information about products and services or information about major customers as required in the IFRS.

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**Basis for conclusions**

*The basis for conclusions gives the Accounting Standards Board's (the Board's) reasons for rejecting certain solutions related to the disclosure of segment information. This basis for conclusions accompanies, but is not part of this Standard.*

**Introduction****Approach adopted by the Board**

- BC1. The Standard of GRAP on Segment Reporting issued in 2005 was drawn mainly from the International Public Sector Accounting Standard on Segment Reporting (IPSAS 18), issued by the International Public Sector Accounting Board (IPSASB). This Standard has not yet been approved for implementation.
- BC2. In September 2007, the International Accounting Standards Board issued a revised Standard on Segment Reporting (IFRS 8). IFRS 8 requirements are based on information about components of the entity that management uses in making decisions about operating matters. IFRS 8 eliminated the requirement of separating between primary and secondary segments; it introduced the concept of operating segments; and it simplified the measurement requirements previously included in IAS 14. IFRS 8 also introduced required disclosures on information about products and services, geographical areas and major customers.
- BC3. In November 2009, the Board decided to revise GRAP 18 in order to simplify it. The Board decided to base these amendments mainly on IFRS 8. New disclosure requirements would not be introduced, unless that information is readily available and is used for management decision-making purposes, or the cost of disclosure would not be excessive.
- BC4. The title of the Standard was not revised, as the IASB's approach to refer to "Operating Segments" did not reflect the approach the Board adopted regarding the definition of segments.

**Scope**

- BC5. The Board did not amend the scope of GRAP 18 (2005) as all entities that apply Standards of GRAP are publicly accountable. The IFRS 8 scope is not appropriate for public sector entities.

**Identifying reportable segments**

- BC6. The Board amended the definition of a segment in IFRS 8 to include the notion that a segment is an activity of the entity from which future economic benefits or service potential is expected rather than a component of the entity that may earn revenues and incur expenses, similar to GRAP 18 (2005). In identifying segments in the public sector, the Board realises that performance review of a segment consist of both the quality and the quantity elements. As a result, the definition of a segment refers to the review of "results" versus "operating results".

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**Comparison with the International Financial Reporting Standard on Operating Segments (November 2006)**

The Standard of GRAP on *Segment Reporting* (2010) is drawn primarily from the International Financial Reporting Standard on *Operating Segments* (IFRS 8). The main differences between this Standard and IFRS 8 are as follows:

- The Scope of this Standard is different to IFRS 8 in that all entities that apply Standards of GRAP report segment information if they have segments.
- Terminology and examples have been amended for public sector specific reasons and alignment with other Standards of GRAP. For example:
  - the name of this Standard is "Segment Reporting" not "Operating Segments";
  - the Standard refers to "segments" not "operating segments" and the term "chief operating decision maker" has been replaced with "management". The related guidance has been deleted or amended as Standards of GRAP already define "management";
  - "parent" has been replaced with "controlling entity", "group" with "economic entity", "statement of comprehensive income" with "statement of financial performance", "profit or loss" with "surplus or deficit", "products and services" with "goods and/or services"; and
  - the implementation guidance has been replaced with a public sector example.
- The way in which segments are identified for reportable purposes has been adapted to meet the requirements of a public sector perspective.
- The definition of a segment is different to that of an operating segment in IFRS 8. A segment refers to an "activity" versus a "component" of an entity that "generates economic benefits and service potential" versus "earn revenues and incur expenses", and whose "results" are regularly reviewed by management versus reviewing of "operating results". The word "discrete" has been replaced with "separate".
- The aggregation criteria have been amended and the Standard does not include the threshold approach in IFRS 8.
- This Standard allows multiple segment reporting or adoption of a primary and secondary segment basis.
- The general disclosure requirements have been amended to include disclosures for non-exchange revenues.
- This Standard requires geographical information to be disclosed, per geographical area, for revenues (exchange and non-exchange transactions), expenditure and assets. IFRS 8 only requires a distinction between national and foreign revenues and assets. The other entity-wide disclosures in IFRS 8 are not required in this Standard.
- Transitional provisions in this Standard are dealt with differently than in IFRS 8.

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**SCHEDULE 2**  
**GRAP 105 – TRANSFER OF FUNCTIONS BETWEEN ENTITIES**  
**UNDER COMMON CONTROL**



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## ACCOUNTING STANDARDS BOARD

### STANDARD OF GENERALLY RECOGNISED ACCOUNTING PRACTICE

### TRANSFER OF FUNCTIONS BETWEEN ENTITIES UNDER COMMON CONTROL (GRAP 105)

#### Acknowledgement

In developing the Standard of Generally Recognised Accounting Practice (GRAP) on *Transfer of Functions Between Entities Under Common Control* reference was made to the International Financial Reporting Standard (IFRS) on *Business Combinations* issued by the International Accounting Standards Board (IASB). The IASB has issued a comprehensive body of International Financial Reporting Standards (IFRSs). Extracts of the IFRS on *Business Combinations* are reproduced in this Standard of GRAP with the permission of the IASB.

The approved text of IFRSs is that published by the IASB in the English language and copies may be obtained from:

IFRS Foundation Publications Department  
30 Cannon Street  
London EC4M 6XH  
United Kingdom

Internet: <http://www.ifrs.org>

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November 2010

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Transfer of Functions Between  
Entities Under Common Control



Accounting Standards Board

## GRAP 105

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**TRANSFER OF FUNCTIONS BETWEEN ENTITIES UNDER COMMON CONTROL**

This Standard of GRAP was originally issued by the Accounting Standards Board (the Board) in November 2010. Since then, it has been amended as follows:

- To clarify principles relating to the initial recognition and measurement by the acquirer.
- With consequential amendments following the revisions to GRAP 100 *Discontinued Operations* in 2013.

**Introduction****Standards of Generally Recognised Accounting Practice (GRAP)**

The Accounting Standards Board (the Board) is required in terms of the Public Finance Management Act, Act No. 1 of 1999, as amended (PFMA), to determine generally recognised accounting practice referred to as Standards of Generally Recognised Accounting Practice (GRAP).

The Board must determine GRAP for:

- (a) departments (including national and provincial and government components);
- (b) public entities;
- (c) trading entities (as defined in the PFMA);
- (d) constitutional institutions;
- (e) municipalities and boards, commissions, companies, corporations, funds or other entities under the ownership control of a municipality, and
- (f) Parliament and the provincial legislatures.

The above are collectively referred to as "entities" in Standards of GRAP.

The Board has approved the application of Statements of Generally Accepted Accounting Practice (GAAP), as codified by the Accounting Practices Board and issued by the South African Institute of Chartered Accountants as at 1 April 2012, to be GRAP for:

- (a) government business enterprises (as defined in the PFMA);
- (b) any other entity, other than a municipality, whose ordinary shares, potential ordinary shares or debt are publicly tradable on the capital markets; and
- (c) entities under the ownership control of any of these entities.

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The Board has approved the application of International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board to be GRAP for these entities where they are applying IFRSs. Financial statements should be described as complying with Standards of GRAP only if they comply with all the requirements of each applicable Standard of GRAP and any related Interpretations of the Standards of GRAP.

Any limitation of the applicability of specific Standards or Interpretations is made clear in those Standards or Interpretations of the Standards of GRAP.

The Standard of GRAP on *Transfer of Functions Between Entities Under Common Control* is set out in paragraphs 01 to 65. All paragraphs in the Standards of GRAP have equal authority. The status and authority of appendices are dealt with in the preamble to each appendix. The Standards should be read in the context of its objective, its basis for conclusions if applicable, the *Preface to Standards of GRAP*, the *Preface to the Interpretations of the Standards of GRAP* and the *Framework for the Preparation and Presentation of Financial Statements*.

Standards of GRAP and Interpretations of the Standards of GRAP should also be read in conjunction with any directives issued by the Board prescribing transitional provisions, as well as any regulations issued by the Minister of Finance regarding the effective dates of the Standards of GRAP, published in the Government Gazette.

Reference may be made here to a Standard of GRAP that has not been issued at the time of issue of this Standard. This is done to avoid having to change the Standards already issued when a later Standard is subsequently issued. Paragraph 11 of the Standard of GRAP on *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

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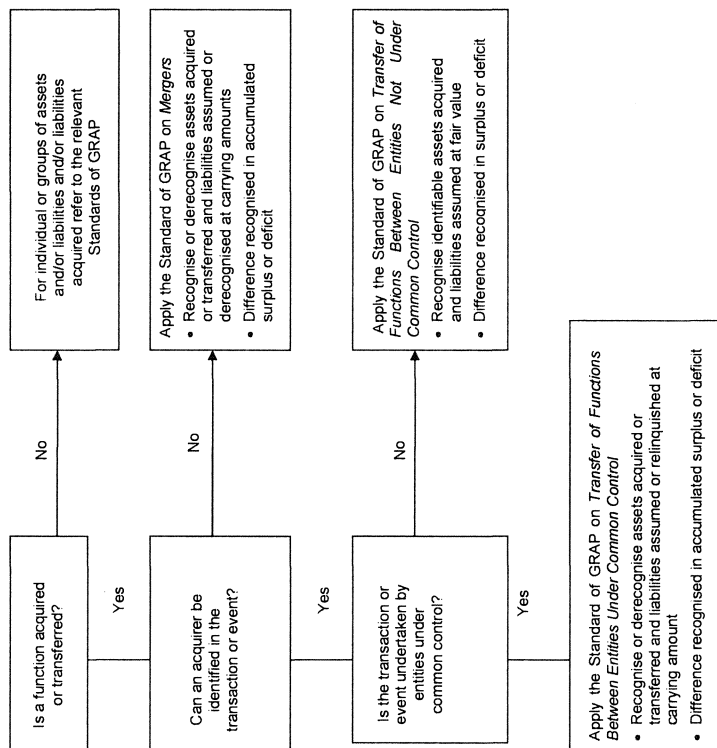
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**Objective**

.01 The objective of this Standard is to establish accounting principles for the acquirer and transferor in a transfer of functions between entities under common control.

**Scope**

.02 *An acquirer and a transferor that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard to a transaction or event that meets the definition of a transfer of functions.*

.03 This Standard does not apply to:

- (a) transfers of individual or groups of assets and/or liabilities that do not meet the definition of a transfer of functions (see the applicable Standards of GRAP);
- (b) a transfer of functions between entities not under common control (see the Standard of GRAP on *Transfer of Functions Between Entities Not Under Common Control*); and
- (c) a merger (see the Standard of GRAP on *Mergers*).

.04 Entities should consider the following diagram in determining whether this Standard should be applied in accounting for a transaction or event that involves a transfer of functions or merger.

- .05 Transfers of individual or groups of assets and/or liabilities are excluded from the scope of this Standard as these arrangements result in the acquisition or transfer of an asset or a group of assets and/or the assumption or transfer of a liability or a group of liabilities by an entity rather than the transfer of functions. For example, when a national roads agency takes control of a provincial road from various provincial departments from time to time, it is a transfer of individual assets.
- .06 If no acquirer can be identified in the transaction or event, the Standard of GRAP

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on Mergers should be applied. A merger is the establishment of a new combined entity in which none of the former entities obtains control over any other and no acquirer can be identified.

- .07 A transaction or event in which an acquirer can be identified, and that occurs between entities under common control falls within the scope of this Standard. A transfer of functions between entities under common control is a reorganisation and/or reallocation of functions between entities that are ultimately controlled by the same entity before and after a transfer of functions, and that control is not transitory.
- .08 A transaction or event in which an acquirer can be identified and that are undertaken between entities not under common control should be accounted for in terms of the Standard of GRAP on *Transfer of Functions Between Entities Not Under Common Control*.

## Definitions

- .09 *The following terms are used in this Standard with the meanings specified:*
- An acquirer** is the entity that obtains control of the acquiree or transferor.
- Carrying amount of an asset or liability** is the amount at which an asset or liability is recognised in the statement of financial position.
- Control** is the power to govern the financial and operating policies of another entity so as to benefit from its activities.
- A function** is an integrated set of activities that is capable of being conducted and managed for purposes of achieving an entity's objectives, either by providing economic benefits or service potential.
- A merger** is the establishment of a new combined entity in which none of the former entities obtains control over any other and no acquirer can be identified.
- Transfer date** is the date on which the acquirer obtains control of the function and the transferor loses control of that function.
- A transfer of functions** is the reorganisation and/or the re-allocation of functions between entities by transferring functions between entities or into another entity.
- A transferor** is the entity that relinquishes control of a function.

**Terms defined in other Standards of GRAP are used in this Standard with**

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*the same meaning as in those other Standards of GRAP.*

## Common control

- .10 For a transaction or event to occur between entities under common control, the transaction or event needs to be undertaken between entities within the same sphere of government or between entities that are part of the same economic entity. Entities that are ultimately controlled by the same entity before and after the transfer of functions are within the same economic entity. For example, a national health department is mandated through legislation to transfer its primary school nutrition programme to the education department. Because the education department is identified as the acquirer, and both departments are within the national sphere of government and within the same economic entity, the transfer of functions falls within the scope of this Standard.
- .11 The extent of non-controlling interests in each of the entities that are involved in a transfer of functions before and after the transfer of functions is not relevant in determining whether the transaction or event involves entities under common control.

## Function

- .12 A function is an integrated set of activities that is capable of being conducted and managed for purposes of achieving an entity's objectives, either by providing economic benefits or service potential. A function consists of inputs and processes applied to those inputs that have the ability to create outputs. A function can either be a part or a portion of an entity or can consist of the whole entity. Although functions may have outputs, outputs are not required to qualify as a function. The three elements of a function are defined as follows:
- (a) **Input:** Any resource that creates, or has the ability to create, outputs when one or more processes are applied to it. Examples include non-current assets (including intangible assets or rights to use non-current assets), intellectual property, and the ability to obtain access to necessary materials or rights and employees.
- (b) **Process:** Any system, standard, protocol, convention or rule that when applied to an input or inputs, creates or has the ability to create outputs. Examples include strategic management processes, operational processes and resource management processes. These processes typically are documented, but an organised workforce having the necessary skills and experience following rules and conventions may provide the necessary processes that are capable of being applied to inputs to create outputs. (Accounting, billing, payroll and other administrative systems typically are not processes used to create outputs.)

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

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

### Identifying the acquirer and transferor

- .16 **For each transfer of functions between entities under common control an acquirer and transferor shall be identified.**
- .17 The terms and conditions of a transfer of functions undertaken between entities under common control are set out in a binding arrangement. This arrangement may be evidenced in a number of ways and may encompass a formal written agreement between the entities, legislation passed in parliament or a provincial

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legislature, cabinet decision, ministerial order, a decision made by a municipal council, regulation or a notice or other official means.

- .18 In a transfer of functions, it is one of the parties to the transaction or event should be identified as the acquirer. The binding arrangement governing the terms and conditions of a transfer of functions may identify which entity to the transaction or event is the transferor(s) and which entity is the acquirer. Where the binding arrangement does not clearly identify the acquirer or the transferor, the behaviour or actions of the entities may indicate which entity is the acquirer and which entity is the transferor. For example, if the department of health used to feed primary school children on a daily basis and it subsequently ceases to do so following a transfer of the programme to the department of education, this is a clear indication that the department of health is the transferor and the department of education is the acquirer. Additional evidence may be that an entity no longer receives funding from the fiscus to carry out certain activities.
- .19 In a transfer of functions effected primarily by transferring cash or other assets (where applicable) or by incurring liabilities, the acquirer is usually the entity that transfers the cash or other assets (where applicable) or incurs the liabilities.
- .20 In a transfer of functions involving more than one entity, one of the entities that existed before the transaction or event may be identified as the acquirer on the basis of available evidence. For example, if the management of one of the entities involved in the transfer of functions dominates the selection of the management team in the newly established entity, the dominant entity is usually the acquirer.
- .21 Determining the acquirer shall include a consideration of, amongst other things, which of the entities involved in the transfer of functions initiated the transaction or event, the relative size of the entities, as well as whether the assets or revenue of one of the entities involved in the transaction or event significantly exceed those of the other entities. If no acquirer can be identified, the transaction or event should be accounted for in terms of the Standard of GRAP on Mergers.

### Determining the transfer date

- .22 **The acquirer and the transferor shall identify the transfer date, which is the date on which the acquirer obtains control and the transferor loses control of that function.**
- .23 The binding arrangement governing the terms and conditions of a transfer of functions between entities under common control may specify that the transaction or event is effective from a specific date. The date on which the acquirer obtains control of the functions is the date on which the acquirer transfers the consideration (if any), acquires the assets and assumes the

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liabilities of the transferor as identified in the binding arrangement. However, the acquirer may obtain control on a date that is either earlier or later than the date on which the assets and liabilities are transferred by the transferor, or specified in the binding arrangement. For example, legislation passed in Parliament on 1 April 20X1 requires department A to take over the functions of department B. Both departments are within the same province. A directive is issued stating that the effective date of the transfer is 1 June 20X1. Department A however only obtains control of the assets and liabilities on 1 July 20X1 through a memorandum of understanding drawn up between the two departments. As department A can only use or otherwise benefit from the transfer of functions in pursuit of its objectives, or exclude or otherwise regulate the access of others to those benefits from 1 July 20X1, the transaction or event should be accounted for as from 1 July 20X1. The acquirer should consider all relevant facts and circumstances in identifying the transfer date.

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

### Assets acquired or transferred and liabilities assumed or relinquished

.25 *The recognition of assets and liabilities by the acquirer, and the derecognition of assets and liabilities by the transferor is subject to the conditions specified in the paragraphs below.*

#### Criteria for the acquirer and transferor

.26 The assets and liabilities that qualify for recognition by the acquirer or derecognition by the transferor in a transfer of functions between entities under common control are normally governed by the terms and conditions of the binding arrangement.

.27 The assets acquired or transferred and the liabilities assumed or relinquished must be part of what had been agreed in terms of the binding arrangement, rather than the result of separate transactions. The acquirer and transferor shall apply the guidance in paragraphs .28 and .29 to determine which assets are acquired or transferred and which liabilities are assumed or relinquished as part of a transfer of functions and which, if any, are the result of separate transactions to be accounted for in accordance with their nature and the applicable Standard of GRAP.

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### Determining what is part of the transfer of functions transaction

.28 *The acquirer and the transferor may have a pre-existing relationship before or when negotiations for a transfer of functions began, or they may enter into a binding arrangement during the negotiations that is separate from a transfer of functions. In either situation, the acquirer shall identify any amounts that are not part of what the acquirer and transferor transferred in a transfer of functions. This Standard only applies to the consideration transferred, if any, and the assets acquired and liabilities assumed by the acquirer in a transfer of functions as governed by the terms and conditions of the binding arrangement. Similarly, the transferor shall apply this Standard to recognise only the consideration received (if any) and derecognise the assets transferred and liabilities relinquished in a transfer of functions as governed by the terms and conditions of the binding arrangement. Apart from those transactions identified in paragraphs .31 and .32, separate transactions shall be accounted for in accordance with the relevant Standards of GRAP.*

.29 The following are examples of separate transactions that are not part of a transfer of functions:

- (a) a transaction that in effect settles pre-existing relationships between the acquirer and the transferor;
- (b) a transaction that reimburses the transferor for paying the acquirer's acquisition-related costs; and
- (c) contributions received from third parties as compensation for future services as a result of undertaking the transfer of functions.

.30 The acquirer and transferor should consider the following factors, which are neither mutually exclusive nor individually conclusive, to determine whether a transaction is part of a transfer or function or whether the transaction is separate:

- (a) **the reasons for the transaction** — Understanding the reasons for the transaction may provide insight into whether it is part of the consideration transferred, if any, and the assets acquired or transferred or liabilities assumed or relinquished. For example, amounts due by the transferor from a previous arrangement between the transferor as a service provider will not form part of the transfer of functions as the services provided were primarily for the benefit of the transferor rather than for the benefit of the acquirer.
- (b) **the timing of the transaction** — The timing of the transaction may also provide insight into whether it is part of the consideration, if any, for the

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for as part of the liabilities at the transfer date. The acquirer shall not recognise those costs as part of a transfer of functions. Instead, the acquirer recognises these costs in its financial statements after the transfer has occurred, in accordance with the applicable Standards of GRAP.

## Accounting by the acquirer

### Initial recognition and measurement

.35 *As of the transfer date, the acquirer shall recognise the purchase consideration paid (if any) to the transferor and all the assets acquired and liabilities assumed in a transfer of functions. The assets acquired and liabilities assumed shall be measured at their carrying amounts.*

.36 The carrying amount of an asset acquired, or a liability assumed is the amount at which the asset or liability is recognised by the transferor in its statement of financial position as of the transfer date.

.37 If, on the transfer date, the transferor did not apply Standards of GRAP, the acquirer should adjust the basis of accounting used for the assets acquired and liabilities assumed to align it to Standards of GRAP prior to the transfer.

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

.39 *The difference between the carrying amounts of the assets acquired, the liabilities assumed and the consideration paid (if any) to the transferor and adjustments required to the basis of accounting as described in paragraph .37, shall be recognised in accumulated surplus or deficit.*

### Measurement period

.40 *If the initial accounting for a transfer of functions is incomplete by the end of the reporting period in which the transfer occurs, the acquirer shall report in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, the acquirer shall retrospectively adjust the provisional amounts recognised at the transfer date to reflect new information obtained about facts and circumstances that existed as of the transfer date and, if known, would have affected the measurement of the amounts recognised as of that date. The measurement period ends as soon as the acquirer receives the information it was seeking about facts and circumstances that existed as of the transfer date or learns that more information is not obtainable.*

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transferor.

### Effective settlement of a pre-existing relationship between the acquirer and transferor in a transfer of functions (application of paragraph .29(a))

.31 A pre-existing relationship between the acquirer and transferor may be contractual (for example, vendor and customer or supplier) or non-contractual (for example, plaintiff and defendant).

.32 If a transfer of functions in effect settles a pre-existing relationship, the acquirer recognises a gain or loss, measured as follows:

- (a) for a pre-existing non-contractual relationship, fair value.
- (b) for a pre-existing contractual relationship, the lesser of (i) and (ii):

(i) the amount by which the binding arrangement is favourable or unfavourable from the perspective of the acquirer when compared with terms for current market transactions for the same or similar items. (An unfavourable contract is a contract that is unfavourable in terms of current market terms. It is not necessarily an onerous contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits or service potential expected to be received under it.)

(ii) the amount of any stated settlement provisions in the binding arrangement available to the counterparty to whom the contract is unfavourable.

If (i) is less than (ii), the difference is included as part of a transfer of functions accounting. The amount of gain or loss recognised may depend in part on whether the acquirer had previously recognised a related asset or liability, and the reported gain or loss therefore may differ from the amount calculated by applying the above requirements.

### Criteria for the acquirer

.33 The assets acquired and liabilities assumed that qualify for recognition as set out in the binding arrangement must meet the definitions of assets and liabilities in the *Framework for the Preparation and Presentation of Financial Statements* and the recognition criteria in the applicable Standards of GRAP at the transfer date.

.34 Costs that the acquirer expects, but which the acquirer is not obliged to incur in the future to effect its plan to exit an activity of the transferor or to terminate the employment of, or relocate the transferor's employees, shall not be accounted

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**However, the measurement period shall not exceed two years from the transfer date.**

- .41 The measurement period is the period after the transfer date during which the acquirer may adjust the provisional amounts recognised for a transfer of functions. The measurement period provides the acquirer with reasonable time to obtain the information necessary to identify and measure the following as of the transfer date in accordance with the requirements of this Standard:
- (a) the assets acquired and liabilities assumed;
  - (b) the consideration transferred, if any, for the transferor; and
  - (c) the resulting excess of the purchase consideration paid (if any) over the assets acquired and liabilities assumed.

.42 The acquirer shall consider all relevant factors in determining whether information obtained after the transfer date should result in an adjustment to the provisional amounts recognised or whether that information results from events that occurred after the transfer date. Relevant factors include the date when additional information is obtained and whether the acquirer can identify a reason for a change to provisional amounts. Information that is obtained shortly after the transfer date is more likely to reflect circumstances that existed at the transfer date than is information obtained several months later.

.43 The acquirer recognises an increase (decrease) in the provisional amount recognised for an asset (liability) by means of decreasing (increasing) the excess of the purchase consideration paid (if any) over the carrying amount of the assets acquired and liabilities assumed previously recognised in accumulated surplus or deficit. However, new information obtained during the measurement period may sometimes result in an adjustment to the provisional amount of more than one asset or liability. For example, the acquirer might have assumed a liability to pay damages related to an accident in one of the transferor's facilities, part or all of which are covered by the transferor's liability insurance policy. If the acquirer obtains new information during the measurement period about the transfer date carrying amounts of that liability, the adjustment to the excess resulting from a change to the provisional amount recognised for the liability would be offset (in whole or in part) by a corresponding adjustment to the previously recognised excess in accumulated surplus or deficit resulting from a change to the provisional amount recognised for the claim receivable from the insurer.

.44 During the measurement period, the acquirer shall recognise adjustments to the provisional amounts as if the accounting for the transfer of functions had been completed at the transfer date. Thus, the acquirer shall revise comparative information for prior periods presented in financial statements as needed,

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including making any change in depreciation, amortisation or other income effects recognised in completing the initial accounting.

- .45 After the measurement period ends, the acquirer shall revise the accounting for a transfer of functions only to correct an error in accordance with the Standard of GRAP on *Accounting Policies, Changes in Accounting Estimates and Errors*.

**Acquisition-related costs**

.46 Acquisition-related costs are costs that the acquirer incurs to affect the transfer of functions. These costs include advisory, legal, accounting and other professional or consulting fees, general administrative costs, and costs of registering and issuing debt and equity securities (if applicable). The acquirer shall account for acquisition-related costs as expenses in the period in which the costs are incurred and the services are received, with the exception of the costs incurred to issue debt or equity securities (if applicable). Such costs shall be recognised in accordance with the Standard of GRAP on *Financial Instruments*.

**Subsequent measurement**

.47 **The acquirer shall subsequently measure any assets acquired and any liabilities assumed in a transfer of functions in accordance with the applicable Standards of GRAP.**

.48 **At the transfer date, the acquirer shall classify or designate the assets acquired and liabilities assumed as necessary to apply other Standards of GRAP subsequently. The acquirer shall make those classifications or designations on the basis of the terms of the binding arrangement, economic conditions, its operating or accounting policies and other relevant conditions that exist at the transfer date.**

.49 In some situations, the Standards of GRAP provide for different accounting depending on how an entity classifies or designates a particular asset or liability. Examples of classifications or designations that the acquirer shall make on the basis of the relevant conditions as they exist at the transfer date, is the categorisation of particular financial assets and liabilities at fair value or amortised cost in accordance with the Standard of GRAP on *Financial Instruments*.

.50 An exception to the requirement in paragraph 48 to the classification or designation of the assets acquired and liabilities assumed on the transfer date, is that the acquirer shall classify the following contracts on the basis of the contractual terms and other factors at the inception of the contract (or, if the terms of the contract have been modified in a manner that would change its classification, at the date of that modification, which might be the transfer date):

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- (a) classification of a lease contract as either an operating lease or a finance lease in accordance with the Standard of GRAP on Leases; and
- (b) classification of a contract as an insurance contract in accordance with the International Financial Reporting Standard on Insurance Contracts.

### Accounting by the transferor

#### Derecognition of assets transferred and liabilities relinquished

- .51 *As of the transfer date, the transferor shall derecognise from its financial statements, all the assets transferred and liabilities relinquished in a transfer of functions at their carrying amounts.*
- .52 Until the transfer date, the transferor shall continue to measure these assets and liabilities in accordance with applicable Standards of GRAP.
- .53 The consideration received from the acquirer can be in the form of cash, cash equivalents or other assets. If the consideration received is in the form of other assets, the transferor shall measure such assets at their fair value on the transfer date in accordance with the applicable Standard of GRAP.
- .54 *The difference between the carrying amounts of the assets transferred, the liabilities relinquished and the consideration received (if any) from the acquirer shall be recognised in accumulated surplus or deficit.*

### Disclosure

- .55 *The acquirer and transferor shall disclose information that enables users of its financial statements to evaluate the nature and financial effect of a transfer of functions that occurs either:*
- (a) *during the current reporting period; or*
- (b) *after the end of the reporting period but before the financial statements are authorised for issue.*
- .56 *The acquirer and transferor shall disclose the following for a transfer of functions that occurred during the reporting period:*
- (a) *the accounting policy adopted for a transfer of functions that occurred during the reporting period;*
- (b) *the name of the entities involved in the transfer of functions, a brief description of the functions transferred and the reason for*

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*undertaking the transaction or event; and*

(c) *the transfer date.*

- .57 *For transactions that are recognised separately from the transfer of functions in accordance with paragraph .28:*
- (a) *a description of each transaction;*
- (b) *how the transaction was accounted for;*
- (c) *the amounts recognised for each transaction and the line item in the financial statements in which each amount is recognised; and*
- (d) *if the transaction is the effective settlement of a pre-existing relationship, the method used to determine the settlement amount.*

### Acquirer

- .58 *The acquirer shall disclose the following for each transfer of functions that occurred during the reporting period:*
- (a) *for each affected line item in the financial statements, the value of the assets acquired and liabilities assumed in a transfer of functions;*
- (b) *the difference between the carrying amounts of the assets acquired, the liabilities assumed and the consideration paid (if any) to the transferor and any adjustments required to the basis of accounting as described in paragraph .37, as a separate line item in net assets;*
- (c) *additional contingent liabilities and contingent assets disclosed attributable to a transfer of functions; and*
- (d) *revenue and expenditure attributable to a transfer of functions subsequent to its transfer.*
- Financial statements of subsequent periods need not to repeat these disclosures.*
- .59 *If the specific disclosures required by this and other Standards of GRAP do not meet the objectives set out in paragraph .58, the acquirer shall disclose whatever additional information is necessary to meet those objectives.*
- .60 *The acquirer shall disclose the following information for each material transfer of functions or in the aggregate for individually immaterial transfer of functions that are material collectively if the initial accounting for a*

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transfer of functions is incomplete (see paragraph .40) for particular assets, liabilities, or any consideration and the amounts recognised in the financial statements for the transfer of functions:

- (a) the reasons why the initial accounting for the transfer of functions is incomplete;
- (b) the assets, liabilities, or any consideration for which the initial accounting is incomplete; and
- (c) the nature and the amount of any measurement period adjustments recognised during the reporting period in accordance with paragraph .44.

#### Transferor

.61 The transferor shall disclose the following, in addition to the disclosure requirements in the Standard of GRAP on Discontinued Operations, for each transfer of functions that occurred during the reporting period:

- (a) for each affected line item in the financial statements, the carrying amount of the assets transferred and the liabilities relinquished;
- (b) the difference between the carrying amounts of the assets transferred, the liabilities relinquished and the consideration received (if any) from the acquirer, as a separate line item in net assets.

Financial statements of subsequent periods need not repeat these disclosures.

#### Transitional provisions

Initial adoption of the Standards of GRAP

.62 The transitional provisions to be applied by entities on the initial adoption of this Standard are prescribed in a directive(s). The provisions of this Standard shall be read in conjunction with each applicable directive.

#### Amendments to Standards of GRAP

.63 Paragraphs .37, .39, and .58 were amended to accommodate implementation requirements that were approved by the Board during February 2013. An entity shall apply these amendments prospectively to a transaction or event that involves a transfer of functions when the transfer date is on or after the initial adoption of the Standard.

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#### Effective date

.64 An entity shall apply this Standard of GRAP for annual financial statements covering periods beginning on or after a date to be determined by the Minister of Finance in a regulation to be published in accordance with section 91(1)(b) of the Public Finance Management Act, Act No. 1 of 1999, as amended.

.65 The guidance on the measurement period as included in paragraphs .40 to .45 will only become effective once Directives 2 to 4 that prescribe the transitional provisions for entities on the initial adoption of the Standards of GRAP are withdrawn.

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## Appendix – Consequential amendments to other Standards of GRAP

*The purpose of the appendix is to identify the consequential amendments to other Standards of GRAP resulting from the issue of the Standard of GRAP on Transfer of Functions Between Entities Under Common Control.*

Amended text is shown with new text underlined and deleted text struck through.

### Amendments to the Framework for the Preparation and Presentation of Financial Statements (Framework)

A1. Amend paragraph .38 in the 'Going concern' section of the Framework as follows:

#### Going concern

.38 The financial statements should be prepared on the assumption that an entity is a going concern, and will continue in operation for the foreseeable future. Financial problems of public sector entities are normally resolved by either the ability to raise taxes or some other intervention in order to ensure the services are maintained. Accordingly, a consideration of the going concern involves judgement on whether the entity will continue in its present or some modified form, which may include a merger. Only on rare occasions will the activities cease altogether e.g., when the government discontinues a guarantee of debt and no other intervention is proposed for the entity to continue as a going concern. In those circumstances, the financial statements may have to be prepared on a different basis and, if so, the basis used is disclosed.

### The Standard of GRAP on Presentation of Financial Statements (Issued 2004)

A2. Amend the following paragraphs in GRAP 1:

#### Going concern

.28 Financial statements are normally prepared on the assumption that the entity is a going concern and will continue in operation or some modified form, for example a merger, and meet its statutory obligations for the foreseeable future. In assessing whether the going concern assumption is appropriate, those responsible for the preparation of the financial statements take into account all available information about the future, which is at least, but is not limited to, twelve months from the reporting date.

.99 Circumstances that would give rise to the separate disclosure of items of revenue and expense include:



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- (a) the write-downs of inventories to net realisable value or property, plant and equipment to recoverable amount, as well as the reversals of such write-downs;
- (b) restructurings of the activities of an entity and the reversals of any provisions for the costs of restructuring;
- (c) disposals of items of property, plant and equipment;
- (d) disposals of investments;
- (e) discontinuing operations;
- (f) litigation settlements; and
- (g) other reversals of provisions;
- (h) the difference between the assets acquired and liabilities assumed and the consideration transferred to an acquiree (if any) in a transfer of functions between entities not under common control.

.110 An entity shall present a statement of changes in net assets, showing on the face of the statement:

- (a) the surplus or deficit for the period;
- (b) each item of revenue and expense that, as required by other Standards of GRAP, is recognised directly in net assets, and the total of these items;
- (c) total revenue and expense for the period (calculated as the sum of (a) and (b)), showing separately the total amounts attributable to net assets holders of the controlling entity and to minority interest; and
- (d) for each component of net assets, the effects of changes in accounting policies and the correction of prior period errors recognised in accordance with the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors, and
- (e) for each component of net assets the effect of a transfer of functions and a merger in accordance with the Standards of GRAP on Transfer of Functions Between Entities Under Common Control or Mergers.

### Appendix – Illustrative examples ENTITY – STATEMENT OF FINANCIAL PERFORMANCE (ILLUSTRATING THE CLASSIFICATION OF EXPENSES BY FUNCTION)

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Gain or loss from transfer of functions between entities under common control	(X)			(X)
Gain or loss from mergers	(X)			(X)
<b>Balance at 31 December 20X1</b>	X	X	(X)	X
Gain or loss from transfer of functions between entities under common control	(X)			(X)
Gain or loss from mergers	(X)			(X)
<b>Balance at 31 December 20X2</b>	X	X	(X)	X

The Standard of GRAP on The Effects of Changes in Foreign Exchange Rates (issued 2007)

A3. Amend the following paragraphs in GRAP 4:

- .15 The essential feature of a monetary item is a right to receive (or an obligation to deliver) a fixed or determinable number of units of currency. Examples include: child support grant obligations and other employee benefits to be paid in cash; provisions that are to be settled in cash; and cash dividends or similar distributions that are recognised as a liability. Conversely the essential feature of a non-monetary item is the absence of a right to receive (or an obligation to deliver) a fixed or determinable number of units of currency. Examples include: amounts prepaid for goods and services (e.g. prepaid rent); goodwill; intangible assets; inventories; property, plant and equipment; and provisions that are to be settled by the delivery of a non-monetary asset.

.54 *The difference between the assets acquired, the liabilities assumed and the consideration transferred (if any) Any goodwill arising on the acquisition of a foreign operation shall be accounted for in terms of the Standard of GRAP on Transfer of Functions Between Entities Not Under Common Control, and Any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of that foreign operation shall be treated as assets and liabilities of the foreign operation. Thus they shall be expressed in the functional currency of the foreign operation and shall be translated at the closing rate in accordance with paragraphs .42 and .46.*



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	20X2	20X1	Minority interest	Total equity
<b>Revenue</b>	X	X		
Taxes	X	X		
Fees, fines, penalties and licences	X	X		
Revenue from exchange transactions	X	X		
Transfers from other government entities	X	X		
Gain attributable to transfer of functions between entities not under common control	X	X		
Other operating revenue	X	X		
<b>Total revenue</b>	X	X	X	X

(ILLUSTRATING THE CLASSIFICATION OF EXPENSES BY NATURE)

(in thousands of rands)

	20X2	20X1	Minority interest	Total equity
<b>Revenue</b>	X	X		
Taxes	X	X		
Fees, fines, penalties and licences	X	X		
Revenue from exchange transactions	X	X		
Transfers from other government entities	X	X		
Gain attributable to transfer of functions between entities not under common control	X	X		
Other operating revenue	X	X		
<b>Total revenue</b>	X	X	X	X

ENTITY – STATEMENT OF CHANGES IN NET ASSETS

	Attributable to net assets holders of the controlling entity	Trans- Accumula- Total	Minority interest	Total equity
Contributed capital		ation reserve		
Balance at 31 December 20X0	X	ation reserve (X)	X	X
		surpluses/ (deficits)		
			X	X

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**common control (see the Standard of GRAP on Transfer of Functions Between Entities Under Common Control) or a merger (see the Standard of GRAP on Mergers).**

- The Standard of GRAP on Leases (issued 2004)
- A7. Amend the following paragraph in GRAP 13:
- .02 ***An entity which prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for all leases other than:***
- (c) ***the initial recognition and initial measurement of assets and liabilities in a lease agreement acquired in a transfer of functions between entities under common control (see the Standard of GRAP on Transfer of Functions Between Entities Under Common Control) or a merger (see the Standard of GRAP on Mergers).***

**The Standard of GRAP on Investment Property (issued 2004)**

- A8. Amend the following paragraphs in GRAP 16:
- .04 This Standard does not apply to:
- .....
- (c) ***the initial recognition and initial measurement of investment property acquired in a transfer of functions between entities under common control (see the Standard of GRAP on Transfer of Functions Between Entities Under Common Control) or a merger (see the Standard of GRAP on Mergers).***
- .85 ***In addition to the disclosures required by paragraph .84, an entity that applies the fair value model in paragraphs .41 - .63 shall disclose a reconciliation between the carrying amounts of investment property at the beginning and end of the period, showing the following:***
- .....

- (b) ***additions resulting from acquisitions through a transfer of functions between entities under common control, a transfer of functions between entities not under common control or a merger, business-combinations,***
- .88 ***In addition to the disclosures required by paragraph .84, an entity that applies the cost model in paragraph .64 shall disclose:***
- .....

- (d) ***a reconciliation of the carrying amount of investment property at the beginning and end of the period, showing the following:***

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**The Standard of GRAP on Financial Reporting in Hyperinflationary Economies (issued 2007)**

- A4. Amend the following paragraphs in GRAP 10:
- .16 Most non-monetary items are carried at cost or cost less depreciation, hence they are expressed at amounts current at their date of acquisition. The restated cost, or cost less depreciation, of each item is determined by applying to its historical cost and accumulated depreciation the change in a general price index from the date of acquisition to the reporting date. Hence, property, plant and equipment, investments carried at cost, inventories of raw materials and merchandise, goodwill, patents, trademarks and similar assets are restated from the dates of their purchase. Inventories of partly-finished and finished goods are restated from the dates on which the costs of purchase and of conversion were incurred.
- .20 To determine whether the restated amount of a non-monetary item has become impaired and should be reduced, an entity applies the Standards of GRAP on Impairment of Assets. Hence, in such cases, restated amounts of property, plant and equipment, goodwill, patents and trademarks are reduced to recoverable amount or recoverable service amount, and restated amounts of inventories are reduced to net realisable value and restated amounts of current investments are reduced to market value.

**The Standard of GRAP on Construction Contracts (issued 2006)**

- A5. Add the following paragraph in GRAP 11:
- .06A This Standard does not apply to the initial recognition and initial measurement of items in a construction contract acquired in a transfer of functions between entities under common control (see the Standard of GRAP on Transfer of Functions Between Entities Under Common Control) or a merger (see the Standard of GRAP on Mergers).

**The Standard of GRAP on Inventories (issued 2004)**

- A6. Amend the following paragraph in GRAP 12:
- .02 ***An entity which prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for inventories. The Standard applies to all inventories, except:***
- .....

- (e) ***to the initial recognition and initial measurement of inventories acquired in a transfer of functions between entities under***

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- (i) **additions, disclosing separately those additions resulting from acquisitions and those resulting from subsequent expenditure recognised as an asset,**
- (ii) **additions resulting from acquisitions through a transfer of functions between entities under common control, a transfer of functions between entities not under common control or a merger, business combinations,**

The Standard of GRAP on *Property, Plant and Equipment* (issued 2004)

A9. Amend the following paragraphs in GRAP 17:

- .02 An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for property, plant and equipment, except:**

....

**(e) to the initial recognition and initial measurement of property, plant and equipment acquired in a transfer of functions between entities under common control (see the Standard of GRAP on Transfer of Functions Between Entities Under Common Control) or a merger (see the Standard of GRAP on Mergers).**

- .82 The financial statements shall disclose, for each class of property, plant and equipment recognised in the financial statements:**

....

**(e) a reconciliation of the carrying amount at the beginning and end of the period showing:**

- (i) additions,
- (ii) disposals,
- (iii) acquisitions through a transfer of functions between entities not under common control or a merger business combinations,**

The Standard of GRAP on *Segment Reporting* (issued 2004)

A10. Amend the following paragraphs in GRAP 18:

**.33 The consolidated financial statements of an entity may encompass entities acquired in an entity acquisition which gives rise to purchased goodwill (guidance on accounting for the acquisition of an entity is included in the Standard of GRAP on Business Combinations). In these cases, segment assets will include goodwill that is directly attributable to a segment or that**

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~~can be allocated to a segment on a reasonable basis, and segment expense includes related impairment of goodwill.~~

- .36 Standards of GRAP may require adjustments to be made to the carrying amounts of the identifiable assets and liabilities of an entity acquired in an acquisition (see the Standard of GRAP on *Business Transfer of Functions Between Entities Not Under Common Control*). Measurements of segment assets and liabilities include any adjustments to the prior carrying amounts of the identifiable segment assets and segment liabilities of an entity acquired in a transfer of functions ~~entity combination~~ accounted for as a purchase, even if those adjustments are made only for the purpose of preparing consolidated financial statements and are not recorded in either the controlling entity's or the controlled entity's separate financial statements. Similarly, if property, plant, and equipment has been revalued subsequent to acquisition in accordance with the revaluation model allowed by the Standard of GRAP on *Property, Plant and Equipment*, measurements of segment assets reflect those revaluations.**

The Standard of GRAP on *Provisions, Contingent Liabilities and Contingent Assets* (issued 2007)

A11. Amend the following paragraph in GRAP 19:

- .12 Where another Standard of GRAP deals with a specific type of provision, contingent liability or contingent asset, an entity applies that Standard instead of this Standard. For example, the Standard of GRAP on *Entity Combinations* addresses the treatment by an acquirer of contingent liabilities assumed in a business combination. Similarly, certain types of provisions are also addressed in Standards of GRAP on: .....**

The Standard of GRAP on *Revenue from Non-exchange Transactions (Taxes and Transfers)* (issued 2008)

A12. Amend the following paragraphs in GRAP 23:

- .01 The objective of this Standard is to prescribe requirements for the financial reporting of revenue arising from non-exchange transactions, other than non-exchange transactions that involves a transfer of functions between entities under common control or a merger ~~an entity combination~~. The Standard deals with issues that need to be considered in recognising and measuring revenue from non-exchange transactions, including the identification of contributions from owners.**

- .02 An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for revenue from non-exchange transactions. This Standard does not apply to a transfer of functions between entities under common**

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~~Standards of GRAP on Financial Instruments indicate that the investment may be impaired.~~

.40 In determining the value in use of a cash-generating investment, an entity estimates:

- (a) its share of the present value of the estimated future cash flows expected to be generated by the associate, including the cash flows from the operations of the associate and the proceeds from the ultimate disposal of the investment, or
- (b) the present value of the estimated future cash flows expected to arise from dividends to be received from the investment and from its ultimate disposal.

Under appropriate assumptions, both methods give the same result. Any resulting impairment loss for the investment is allocated in accordance with the Standards of GRAP on *Impairment of Non-cash-generating Assets and Impairment of Cash-generating Assets*. Therefore, it is allocated first to any remaining goodwill (see paragraph 30).

**The Standard of GRAP on Employee Benefits (issued 2009)**

A15. Amend the following paragraph in GRAP 25:

- .02 ~~This Standard shall be applied by an employer in accounting for all employee benefits, except share based payment transactions (see the International Financial Reporting Standard on Share-based Payment), and to the initial recognition and initial measurement of assets and liabilities acquired in a transfer of functions between entities under common control (see the Standard of GRAP on Transfer of Functions Between Entities Under Common Control) or a merger (see the Standard of GRAP on Mergers).~~

**The Standard of GRAP on Impairment of Cash-generating Assets (issued 2009)**

A16. Add the following paragraphs after paragraph .08:

- .08A A transferor that holds a cash-generating asset or a cash-generating unit that are to be relinquished in a transfer of functions between entities under common control (see the Standard of GRAP on *Transfer of Functions Between Entities Under Common Control*), and combining entities that holds a cash-generating asset or a cash-generating unit that are to be transferred in a merger (see the Standard of GRAP on *Mergers*), shall apply the principles in this Standard until the transfer or merger date.

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~~control or a merger or an entity combination that is a non-exchange transaction (see the Standards of GRAP on Transfer of Functions Between Entities Under Common Control or Mergers).~~

.04 Governments may reorganise the public sector, merging some entities and dividing other entities into two or more separate entities. An entity combination occurs when two or more reporting entities are brought together to form one entity. These restructurings do not ordinarily involve one entity purchasing another entity, but may result in a new or existing entity acquiring all the assets and liabilities of another entity. The Board has not yet addressed entity combinations and has excluded them from the scope of this Standard. Therefore, this Standard does not specify whether an entity combination, which is a non-exchange transaction, will give rise to revenue or not.

**The Standard of GRAP on Impairment of Non-cash-generating Assets (issued 2009)**

A13. Add the following paragraphs after paragraph .08:

- .08A A transferor that holds a non-cash-generating asset or a group of non-cash-generating assets that are to be relinquished in a transfer of functions between entities under common control (see the Standard of GRAP on *Transfer of Functions Between Entities Under Common Control*), and combining entities that holds a non-cash-generating asset or a group of non-cash-generating assets that are to be transferred in a merger (see the Standard of GRAP on *Mergers*), shall apply the principles in this Standard until the transfer or merger date.

A14. Amend the following consequential amendments in GRAP 21:

**The Standard of GRAP on Investments in Associates**

D3. Paragraphs 40 and 41 are to be amended as follows:

- .01 .40 Because goodwill that forms part of the carrying amount of an investment in an associate is not separately recognised, it is not tested for impairment separately by applying the requirements for impairment testing goodwill in the Standards of GRAP on *Impairment of Cash-generating Assets and Impairment of Non-cash-generating Assets*. Instead the entire carrying amount of the investment is tested under for impairment in accordance with the Standards of GRAP on *Impairment of Cash-generating Assets or Impairment of Non-cash-generating Assets as a single amount*, by comparing its recoverable amount or recoverable service amount (higher of value in use and fair value less costs to sell) with its carrying amount, whenever application of the requirements in the

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## GRAP 105

- A17. Delete the following paragraph in GRAP 26:  
 .08 For guidance on the impairment of goodwill and the disclosure requirements related thereto, reference should be made to the International Accounting Standard on Impairment of Assets:

- A18. Amend the following consequential amendments in GRAP 26:

**The Standard of GRAP on Investments in Associates**

D3. Paragraphs 40 and 41 are to be amended as follows:

.01 .40 Because goodwill that forms part of the carrying amount of an investment in an associate is not separately recognised, it is not tested for impairment separately by applying the requirements for impairment testing goodwill in the Standards of GRAP on Impairment of Cash-generating Assets and Impairment of Non-cash-generating Assets. Instead the entire carrying amount of the investment is tested under for impairment in accordance with the Standards of GRAP on Impairment of Cash-generating Assets or Impairment of Non-cash-generating Assets as a single amount by comparing its recoverable amount or recoverable service amount (higher of value in use and fair value less costs to sell) with its carrying amount, whenever application of the requirements in the Standards of GRAP on Financial Instruments indicates that the investment may be impaired.

.40A In determining the value in use of a cash-generating the investment, an entity estimates:

.02 (a) its share of the present value of the estimated future cash flows expected to be generated by the associate, including the cash flows from the operations of the associate and the proceeds from the ultimate disposal of the investment; or

.03 (b) the present value of the estimated future cash flows expected to arise from dividends to be received from the investment and from its ultimate disposal.

Under appropriate assumptions, both methods give the same result. Any resulting impairment loss for the investment is allocated in accordance with the Standards of GRAP on Impairment of Non-cash-generating Assets and Impairment of Cash-generating Assets. Therefore, it is allocated first to any remaining goodwill (see paragraph 30).

- A19. Amend the following paragraphs in the Basis for Conclusions:  
**Inclusion of g Treatment of goodwill**

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## GRAP 105

- BC11. IAS 36 contains extensive requirements and guidance on the impairment of goodwill, the allocation of goodwill to cash-generating units and testing cash-generating units with goodwill for impairment. The Standard of GRAP on Transfer of Functions Between Entities Not Under Common Control requires that the difference between the assets acquired and liabilities assumed and the consideration transferred (if any) as of the acquisition date in surplus or deficit. As no goodwill is recognised in the statement of financial position, the principles of the impairment of goodwill is not applicable.

~~The IPSASB has, however, not yet issued an IPSAS dealing with entity combinations and considers it likely that a number of public sector specific issues will arise when combinations of public sector entities take place. As a result, the IPSASB concluded in the basis for conclusions to IPSAS 26 that impairment of goodwill should be scoped out from IPSAS 26.~~

- BC12. ~~The Board, however, agrees with the scope inclusion of impairment of goodwill as in IAS 36. The inclusion of goodwill in this Standard is consistent with the requirements in other Standards of GRAP already approved by the Board. The scope exclusion for the impairment of goodwill is therefore included in this Standard.~~

- BC13. ~~However, in the absence of a Standard of GRAP on Entity Combinations, reference should be made to the International Accounting Standard on Impairment of Assets (IAS 36) for guidance on the impairment of goodwill, and the disclosure requirements related to that.~~

- A20. Amend the following in the comparison with IPSAS 26:

**Comparison with the International Public Sector Accounting Standard on Impairment of Cash-Generating Assets (January 2008)**

- ~~Goodwill has been included in the scope of this Standard. IPSAS 26 excludes goodwill from its scope.~~

**The Standard of GRAP on Discontinued Operations (issued 2006)**

- A21. Add the following paragraph in GRAP 100:

.02A The disclosure requirements of this Standard do not apply to the combining entities in a merger.

**The Standard of GRAP on Agriculture (issued 2006)**

- A22. Amend the following paragraphs in GRAP 101:

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.04 This Standard does not apply to:  
 .....  
 (d) the initial recognition and initial measurement of agricultural activity acquired in a transfer of functions between entities under common control (see the Standard of GRAP on Transfer of Functions Between Entities Under Common Control) or a merger (see the Standard of GRAP on Mergers).

.48 An entity shall present a reconciliation of changes in the carrying amount of biological assets between the beginning and the end of the current period. The reconciliation shall include:  
 .....

- (e) decreases due to harvest;
- (eA) decreases as a result of a transfer of functions between entities under common control or a merger;
- (f) increases resulting from a transfer of functions between entities under common control, a transfer of functions between entities not under common control or a merger entity combinations;

**The Standard of GRAP on Intangible Assets (issued 2006)**

A23. Amend the following paragraphs in GRAP 102:

.03 This Standard shall be applied in accounting for intangible assets, except:  
 .....

- (d) the initial recognition and initial measurement of intangible assets acquired in a transfer of functions between entities under common control (see the Standard of GRAP on Transfer of Functions Between Entities Under Common Control) or a merger (see the Standard of GRAP on Mergers);

.04 Where the accounting for a specific type of intangible asset is prescribed by another Standard of GRAP, an entity applies that Standard of GRAP. For example, this Standard does not apply to:  
 .....

- (f) goodwill acquired in an entity combination (see the Standard of GRAP on Entity Combinations);
- (g) in-process research and development projects acquired through an entity combination (see the Standard of GRAP on Entity Combinations);

.121 An entity shall disclose the following for each class of intangible assets, distinguishing between internally generated intangible assets and other intangible assets:  
 .....

(e) A reconciliation of the carrying amount at the beginning and end of the period showing:

- (iA) acquisitions through a transfer of functions between entities under common control, a transfer of functions between entities not under common control or a merger;

**Comparison with the International Accounting Standard on Intangible Assets (June 2004)**

The Standard of GRAP on Intangible Assets is drawn primarily from the International Accounting Standard on Intangible Assets (IAS 38). The main differences between the Standard of GRAP on Intangible Assets and the IAS on Intangible Assets are as follows:

- The This Standard excludes guidance in this Standard on accounting for intangible assets acquired as part of a transfer of functions, an entity combination and in-process research and development costs acquired in a transfer of functions an entity combination is different that in IAS 38 as the Standard of GRAP on Transfer of Functions Between Entities Not Under Common Control excluded certain exceptions to the recognition and/or measurement principles from the equivalent IFRS, as the Board has not yet considered the applicability of entity combinations to the South-African public sector.
- Guidance on the treatment of goodwill in this Standard has been aligned with the requirements in the Standard of GRAP on Transfer of Functions Between Entities Not Under Common Control.
- The disclosure requirements in IAS 38 that require the disclosure of increases resulting from entity combinations have been deleted from this Standard, as the Board has not yet considered the applicability of entity combinations to the South African public sector.

A24. The following paragraph is to be inserted in GRAP 102:

**Acquisition as part of a transfer of functions**

.39A In accordance with the Standard of GRAP on Transfer of Functions Between Entities Not Under Common Control, if an intangible asset is acquired in a transfer of functions, the cost of that intangible asset is its fair value at the acquisition date. The fair value of the intangible asset will reflect expectations about the probability that the expected future economic benefits or service potential embodied in the asset will flow to the entity. In other words, the entity expects there to be an inflow of economic benefits or



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service potential, even if there is uncertainty about the timing or the amount of the inflow. Therefore, the probability recognition criterion in paragraph 24(a) is always considered to be satisfied for intangible asset acquired in a transfer of functions. If an asset acquired in a transfer of functions is separable or arises from contractual rights (including rights arising from binding arrangements) or other legal rights (excluding rights granted by statute), sufficient information exists to measure reliably the fair value of the asset. Thus, the reliable measurement criterion in paragraph 24(b) is always considered to be satisfied for intangible assets acquired in a transfer of functions.

**The Standard of GRAP on Heritage Assets (issued 2008)**

A25. Amend the following paragraphs in GRAP 103:

**.02** An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in the recognition, measurement and disclosure of all assets that meet the definition of a heritage asset, except the initial recognition and initial measurement of heritage assets acquired in a transfer of functions between entities under common control (see the Standard of GRAP on Transfer of Functions Between Entities Under Common Control) or a merger (see the Standard of GRAP on Mergers).

**.83** The financial statements shall disclose, for each class of heritage assets recognised in the financial statements:

- .....
- (c) a reconciliation of the carrying amount at the beginning and end of the period showing:
  - (iii) acquisitions through a transfer of functions between entities under common control, a transfer of functions between entities not under common control or a merger entity combinations,

**The Standard of GRAP on Financial Instruments (issued 2009)**

A26. Amend the following paragraphs in GRAP 104:

**.02** An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for financial instruments except:

....



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**(c) the initial recognition and initial measurement of financial instruments acquired in a transfer of functions between entities under common control (see the Standard of GRAP on Transfer of Functions Between Entities Under Common Control) or a merger (see the Standard of GRAP on Mergers).**

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Standard, the Board agreed to the development of the following Standards of GRAP:

- The Standard of GRAP on *Transfer of Functions Between Entities Under Common Control* to include in its scope transactions undertaken between entities not under common control by way of an exchange and non-exchange transaction; and
- The Standard of GRAP on *Transfer of Functions Between Entities Under Common Control* to include in its scope transactions undertaken between entities under common control by way of an exchange and non-exchange transaction.

BC6. Some respondents to the exposure draft requested that the same approach should be applied in accounting for all transactions or events that involve a transfer of functions within government. However, the Board concluded that in a transfer of functions undertaken between entities under common control there will be no effect on the consolidated financial statements, whereas a transfer of functions undertaken between entities not under common control will have an effect on the consolidated financial statements. The Board reconfirmed its view that two separate Standards should be developed for transactions or events undertaken between entities under common control, and those undertaken between entities not under common control.

BC7. The Board also noted that the initial recognition and measurement principles of transfers of functions undertaken between entities not under common control by way of a non-exchange transaction, is similar to those for business combinations currently within the scope of IFRS 3.

BC8. The Discussion Paper also proposed accounting principles for transactions and events where one entity is not deemed to gain control over another entity. As these arrangements do not involve "control", respondents supported the development of a separate Standard of GRAP on *Mergers*.

### Common control

BC9. The government of the Republic of South Africa is divided into three different spheres, i.e. national, provincial and local, each given independence from the decision-making of another sphere. Control for accounting purposes is defined in the Standard of GRAP on *Consolidated and Separate Financial Statements* as: "The power to govern the financing and operating policies of an entity so as to obtain benefit from its activities". The key consideration in determining whether or not control exists for accounting purposes is that an entity must be able to demonstrate both that it has certain decision-making capabilities over another, and that it benefits from the activities of that entity.

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## Basis for conclusions

*This basis for conclusions accompanies, but is not part of the Standard of GRAP.*

BC1. This basis for conclusions summarises the Board's considerations in developing the Standard of GRAP on *Transfer of Functions Between Entities Under Common Control*. In forming its views, the Board considered the views expressed and the comment received from stakeholders that responded to the Invitation to Comment (ITC) on a Discussion Paper on *Transfer of Functions* issued in November 2007. The Board further considered the responses to an Invitation to Comment on an exposure draft of the Standard of GRAP on *Transfer of Functions Between Entities Under Common Control* (issued May 2010).

BC2. In developing this Standard of GRAP, the Board considered the principles in the Standards of GRAP on *Revenue from Exchange Transactions* (GRAP 9), *Revenue from Non-exchange Transactions (Taxes and Transfers)* (GRAP 23), *Non-current Assets Held for Sale and Discontinued Operations* (GRAP 100) and the International Financial Reporting Standard on *Business Combinations* (IFRS 3) (2008) issued by the International Accounting Standards Board (IASB).

BC3. A project on the accounting for entity combinations arising from exchange transactions is included on the International Public Sector Accounting Standards Board's (IPSASB) work programme. The Board will continue to monitor this project and, at an appropriate time, consider the implications of the IPSASB project on the Standard of GRAP on *Transfer of Functions Between Entities Under Common Control*.

### Background

BC4. In the Discussion Paper, the Board proposed that a GRAP equivalent of IFRS 3 dealing with entity combinations should be issued and that entity combinations arising from exchange transactions undertaken between entities not under common control also be included in the scope of the project. It was also proposed that a Standard of GRAP should be developed to deal with transfer of functions undertaken between entities that are:

- under common control, whether by way of an exchange and a non-exchange transaction; and
- not under common control by way of a non-exchange transaction.

BC5. Following proposals from respondents to the Discussion Paper to include a transaction or event undertaken between entities not under common control by way of a non-exchange transaction in the scope of the IFRS 3 equivalent GRAP

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BC10. The national government is responsible for setting the overall policies and objectives for all three spheres of government in line with the prescripts of the Constitution. Each sphere of government is in turn responsible for executing its assigned functions in line with the overall policies and objectives set by national government. In effect, national government benefits from the activities undertaken by the various spheres of government, as these contribute to it achieving its overall policies and objectives. The fact that national government provides funding for the operations and may regulate the operating environment does not necessarily imply control for financial reporting purposes.

BC11. In South Africa, this is supported by the requirements in section 8 and 19 of the Public Finance Management Act, Act No. 1 of 1999, as amended (PFMA) to prepare separate consolidated financial statements on a national level and for each province. Similarly, section 122 of the Municipal Finance Management Act, Act No. 56 of 2003 (MFMMA) requires the preparation of consolidated financial statements for each municipality.

BC12. In rare circumstances, for example, through national legislation, an entity in one sphere of government may intervene in the administration of an entity in another sphere of government, if that other entity cannot and does not fulfil its executive obligation. For example, an entity in the national sphere of government may intervene in the administration of a municipality if that municipality is unable to fulfil its constitutional or legislative mandate. These interventions mean that executive decisions are taken on behalf of the other entity until it is able to fulfil its legislative obligations. Such interventions are usually only temporary in nature. However, during this period, circumstances must be evaluated to establish whether or not the intervention meets the definition of control.

**Scope**

*Transfer of individual assets or groups of assets and/or liabilities (paragraphs .03(a) and .05)*

BC13. Arrangements that require one entity to take over an asset or a group of assets, or a liability or a group of liabilities of another entity are outside the scope of this Standard, as these arrangements are merely the acquisition of an asset or a group of assets and/or the assumption of a liability or a group of liabilities.

*Mergers (paragraphs .03(c) and .06)*

BC14. A merger involves the establishment of a new combined entity formed in which none of the former entities obtains control over any other and no acquirer can be identified. Determining whether an acquirer can be identified includes a consideration of, amongst other things, which of the combining entities initiated the transaction or event, the relative size of the combining entities, as well as whether the assets or revenue of one of the entities involved in the transaction

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or event significantly exceed those of the other entities. In a merger, the combining entities come together for the mutual sharing of risks and benefits of the combined entity. Mergers are not included in the scope of this Standard. The Standard of GRAP on Mergers should be applied in accounting for such arrangements.

*A transaction or event undertaken between entities under common control (paragraphs .02 and .07)*

BC15. A transaction or event in which an acquirer can be identified and that results in a transfer of functions between entities in the same sphere of government, and/or between entities that are part of the same economic entity, will fall within the scope of this Standard as the transaction or event is undertaken between entities under common control. The entities involved in the transfer of functions are ultimately controlled by the same entity before and after the transfer of functions. If the function is transferred to a newly established entity that did not exist prior to the transfer date, the transfer will also fall within the scope of this Standard if the newly established entity is identified as the acquirer and the acquirer and transferor forms part of the same economic entity subsequent to the transfer of functions.

*A transaction or event undertaken between entities not under common control (paragraphs .03(b) and .08)*

BC16. A transaction or event in which an acquirer can be identified and that results in a transfer of functions between entities in different spheres of government, and/or between entities that are not part of the same economic entity do not fall within the scope of this Standard as the transaction or event is undertaken between entities not under common control. The entities involved in the transfer of functions are not ultimately controlled by the same entity before and after the transfer of functions. Entities should apply the Standard of GRAP on Transfer of Functions Between Entities Not Under Common Control in accounting for such transfer of functions.

**Initial recognition and measurement**

BC17. As limited guidance exists in the public sector on the accounting for transfer of functions undertaken between entities under common control, the Board considered the appropriateness of guidance on the acquisition and disposal of assets as included in other Standards of GRAP in developing principles for the recognition and measurement of the assets acquired or transferred and liabilities assumed or relinquished in a transfer of functions.

BC18. In most instances, the guidance provided by other standard setters, either for the acquisition of an entity or part of an entity, or for the acquisition of assets acquired requires the use of fair value as a measurement basis.

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BC19. The Discussion Paper concluded that carrying amounts should be used to account for a transaction or event undertaken between entities under common control. The proposal to use carrying amounts was supported by the following:

- If carrying amounts are used by both the acquirer and transferor, no gain or loss is recognised by either party as opposed to remeasuring those assets and liabilities to fair value.
- Gains and losses are not recognised as the entity that ultimately controls the acquirer and transferor are merely transacting with itself.
- No costs need to be incurred to reevaluate any assets and liabilities.

Respondents to the Discussion Paper concurred with the Board's view.

BC20. Respondents to the exposure draft supported this proposal, and the Standard of GRAP on *Transfer of Functions Between Entities Under Common Control* requires that the acquirer should recognise the assets acquired and the liabilities assumed, on the transfer date, at the carrying amount at which the transferor recognised such assets and liabilities in its financial statements as of the transfer date.

BC21. During the comment period, some respondents raised concerns about the fact that the transferor's carrying amounts could be incomplete on the transfer date due to the values being inaccurate or because the transferor is applying a different basis of accounting. A requirement has been included in the Standard to clarify that if the transferor is not applying the accrual basis of accounting prior to the transfer of functions, it should change its basis of accounting to that of an accrual basis of accounting prior to the transfer.

**Measurement period**

BC22. The Standard provides the acquirer with a reasonable period after the transfer date, a measurement period, during which to obtain the information necessary to identify and measure the assets acquired and liabilities assumed in a transfer of functions. If sufficient information is not available at the transfer date to measure the assets and liabilities, the acquirer determines and recognises provisional amounts until the necessary information becomes available.

BC23. A constraint is placed on the period for which it is deemed reasonable to seek information necessary to complete the accounting for a transfer of functions. The measurement period ends as soon as the acquirer receives the necessary information about facts and circumstances that existed as of the transfer date or learns that the information is not obtainable. The Board agreed to a measurement period of two years.

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BC24. The Board also concluded that the acquirer should provide the users of financial statements with relevant information about the status of items that have been measured using provisional amounts. A disclosure requirement has been included to provide such information.

**Effective settlement of a pre-existing relationship between the acquirer and transferor in a transfer of functions**

BC25. The settlement of a pre-existing relationship between the acquirer and the transferor is not part of the transfer of functions as these transactions were entered into, by, or on behalf of the acquirer or primarily for the benefit of the acquirer rather than primarily for the benefit of the transferor before a transfer of functions. Such transactions should be accounted for in terms of the applicable Standards of GRAP.

BC26. As these transactions were entered into in at arm's length, the acquirer should measure the gain or loss when settling the pre-existing relationship at its fair value.

**Excess of the purchase consideration paid by the acquirer over the net assets acquired**

BC27. The Discussion Paper proposed that any excess of the purchase consideration paid by the acquirer over the net asset value of the assets acquired or transferred and liabilities assumed or relinquished should be treated as a purchase premium and recognised in surplus or deficit. The Discussion Paper further proposed that the transferor should recognise such excess in accordance with the Standard of GRAP on *Revenue from Exchange Transactions*, and any excess of the carrying amounts of the assets transferred and liabilities relinquished over the purchase consideration paid by the acquirer, should be recognised by the transferor in surplus or deficit.

BC28. The Board reconsidered its initial view following comment from respondents to the Discussion Paper. It was agreed that any excess of the purchase consideration paid by the acquirer (if any) over the net asset value of the assets acquired or transferred and the liabilities assumed or relinquished should be recognised by both the acquirer and transferor in accumulated surplus and deficit, as the transaction between the acquirer and transferor represents a transaction with owners that occurred between entities under common control. The acquirer is thus entitled to the transferor's portion of the accumulated surplus or deficit that relates to the assets transferred and liabilities relinquished.

BC29. Respondents to the exposure draft supported this proposal, and the Standard of GRAP on *Transfer of Functions Between Entities Under Common Control*

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requires that the acquirer and transferor should recognise the difference between the assets acquired or transferred, the liabilities assumed or relinquished and the consideration paid or received (if any) in accumulated surplus or deficit.

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**SCHEDULE 3**  
**GRAP 106 – TRANSFER OF FUNCTIONS BETWEEN ENTITIES**  
**NOT UNDER COMMON CONTROL**



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GRAP 106

**ACCOUNTING STANDARDS BOARD**

**STANDARD OF GENERALLY RECOGNISED  
ACCOUNTING PRACTICE**

**TRANSFER OF FUNCTIONS BETWEEN ENTITIES  
NOT UNDER COMMON CONTROL**

**(GRAP 106)**

**Acknowledgement**

This Standard of Generally Recognised Accounting Practice (GRAP) on *Transfer of Functions Between Entities Not Under Common Control* is drawn primarily from the International Financial Reporting Standard (IFRS) on *Business Combinations* issued by the International Accounting Standards Board (IASB). The IASB has issued a comprehensive body of International Financial Reporting Standards (IFRSs). Extracts of the IFRS on *Business Combinations* are reproduced in this Standard of GRAP with the permission of the IASB.

The approved text of IFRSs is that published by the IASB in the English language and copies may be obtained from:

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30 Cannon Street  
London EC4M 6XH  
United Kingdom  
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## TRANSFER OF FUNCTIONS BETWEEN ENTITIES NOT UNDER COMMON CONTROL

This Standard was originally issued by the Accounting Standards Board (the Board) in November 2010. Since then, it has been amended with consequential amendments following the revisions to GRAP 100 *Discontinued Operations* in 2013.

### Introduction

#### Standards of Generally Recognised Accounting Practice (GRAP)

The Accounting Standards Board (the Board) is required in terms of the Public Finance Management Act, Act No. 1 of 1999, as amended (PFMA), to determine generally recognised accounting practice referred to as Standards of Generally Recognised Accounting Practice (GRAP).

The Board must determine GRAP for:

- (a) departments (including national and provincial and government components);
- (b) public entities;
- (c) trading entities (as defined in the PFMA);
- (d) constitutional institutions;
- (e) municipalities and boards, commissions, companies, corporations, funds or other entities under the ownership control of a municipality; and
- (f) Parliament and the provincial legislatures.

The above are collectively referred to as "entities" in Standards of GRAP.

The Board has approved the application of Statements of Generally Accepted Accounting Practice (GAAP), as codified by the Accounting Practices Board and issued by the South African Institute of Chartered Accountants as at 1 April 2012, to be GRAP for:

- (a) government business enterprises (as defined in the PFMA);
- (b) any other entity, other than a municipality, whose ordinary shares, potential ordinary shares or debt are publicly tradable on the capital markets; and
- (c) entities under the ownership control of any of these entities.

The Board has approved the application of International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board to be GRAP for these entities where they are applying IFRSs.



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Financial statements should be described as complying with Standards of GRAP only if they comply with all the requirements of each applicable Standard of GRAP and any related Interpretations of the Standards of GRAP.

Any limitation of the applicability of specific Standards or Interpretations is made clear in those Standards or Interpretations of the Standards of GRAP.

The Standard of GRAP on *Transfer of Functions Between Entities Not Under Common Control* is set out in paragraphs .01 to .99. All paragraphs in the Standards of GRAP have equal authority. The status and authority of appendices are dealt with in the preamble to each appendix. The Standards should be read in the context of its objective, its basis for conclusions if applicable, the Preface to Standards of GRAP, the Preface to the Interpretations of the Standards of GRAP and the Framework for the Preparation and Presentation of Financial Statements.

Standards of GRAP and Interpretations of the Standards of GRAP should also be read in conjunction with any directives issued by the Board prescribing transitional provisions, as well as any regulations issued by the Minister of Finance regarding the effective dates of the Standards of GRAP, published in the Government Gazette.

Reference may be made here to a Standard of GRAP that has not been issued at the time of issue of this Standard. This is done to avoid having to change the Standards already issued when a later Standard is subsequently issued. Paragraph .11 of the Standard of GRAP on *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

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## GRAP 106

## Objective

- .01 The objective of this Standard is to establish accounting principles for the acquirer in a transfer of functions between entities not under common control.

## Scope

- .02 **An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard to a transaction or other event that meets the definition of a transfer of functions.**

- .03 This Standard does not apply to:

- (a) transfers of individual or groups of assets and/or liabilities that do not meet the definition of a transfer of functions (see the applicable Standard of GRAP);
- (b) a transfer of functions undertaken between entities under common control (see the Standard of GRAP on *Transfer of Functions Between Entities Under Common Control*);
- (c) a merger (see the Standard of GRAP on *Mergers*); and
- (d) the formation of a joint venture (see the Standard of GRAP on *Interests in Joint Ventures*).

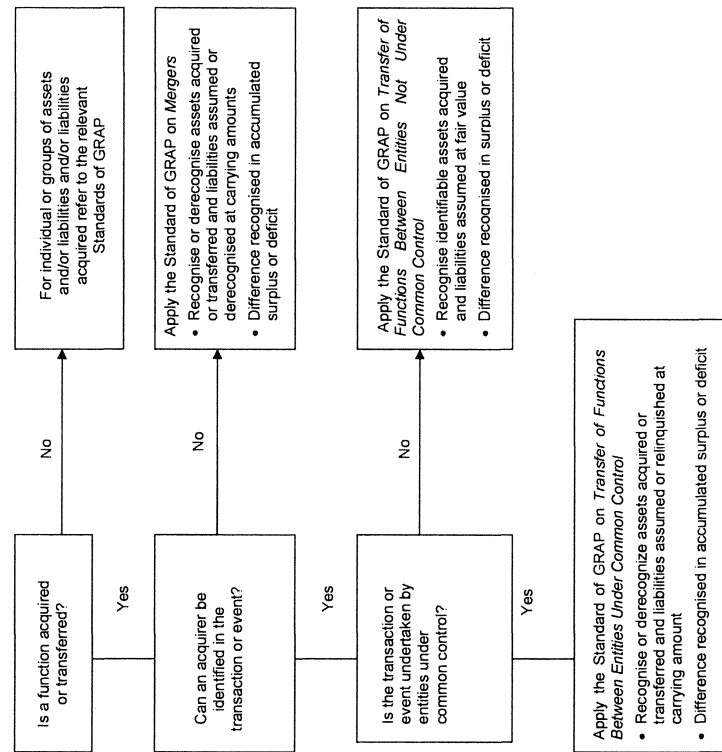
- .04 A transfer of functions undertaken between entities not under common control could involve an acquisition or transfer of another entity or the acquisition or transfer of part of another entity.

- .05 Entities should consider the following diagram in determining whether this Standard should be applied in accounting for a transaction or event that involves a transfer of functions or merger:

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- .08 other and no acquirer can be identified. A transaction or event in which an acquirer can be identified, and that occurs between entities not under common control falls within the scope of this Standard. A transfer of functions between entities not under common control is a reorganisation and/or reallocation of functions between entities that are not ultimately controlled by the same entity both before and after the transfer of functions and that control is not transitory.
- .09 A transaction or event in which an acquirer can be identified and that results in a transfer of functions between entities under common control is excluded from the scope of this Standard. Such a transaction or event should be accounted for in terms of the Standard of GRAP on *Transfer of Functions Between Entities Under Common Control*.

**Definitions**

- .10 **The following terms are used in this Standard with the meanings specified:**
  - An acquiree is the entity and/or the functions that the acquirer obtains control of in a transfer of functions.**
  - An acquirer is the entity that obtains control of the acquiree or transferor.**
  - Acquisition date is the date on which the acquirer obtains control of the acquiree.**
  - Contingent consideration is usually, an obligation of the acquirer to transfer additional assets or a residual interest to the former owners of an acquiree as part of the exchange for control of the acquiree if specified future events occur or conditions are met. However, contingent consideration also may give the acquirer the right to the return of previously transferred consideration if specified conditions are met.**
  - Control is the power to govern the financial and operating policies of another entity so as to obtain benefit from its activities.**
  - Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.**
  - A function is an integrated set of activities that is capable of being conducted and managed for purposes of achieving an entity's**

- .06 Transfers of individual or groups of assets and/or liabilities are excluded from the scope of this Standard as these arrangements result in the acquisition of an asset or a group of assets and/or the assumption of a liability or a group of liabilities by an entity rather than the transfer of functions. For example, when a national roads agency takes control of a provincial road from various provincial departments from time to time, it is a transfer of individual assets.
- .07 If no acquirer can be identified in a transaction or event, the Standard of GRAP on *Mergers* should be applied. A merger is the establishment of new combined entity in which none of the former entities obtains control over any



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objectives, either by providing economic benefits or service potential.

An asset is identifiable if it either:

- (a) is separable, i.e. is capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, asset or liability; or
- (b) arises from contractual rights (including rights arising from binding arrangements) or other legal rights (excluding rights granted by statute), regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.

A merger is the establishment of a new combined entity in which none of the former entities obtain control over any other and no acquirer can be identified.

Non-controlling interest is the interest in the net assets of a controlled entity not attributable, directly or indirectly, to a controlling entity.

Owners (for the purposes of this Standard), is used broadly to include holders of residual interests.

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

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

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

Terms defined in other Standards of GRAP are used in this Standard with the same meaning as in those other Standards of GRAP.

## Common control

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11 For a transaction or event to occur between entities under common control, the transaction or event needs to be undertaken between entities within the same sphere of government or between entities that are part of the same economic entity. Entities that are ultimately controlled by the same entity before and after the transfer of functions are within the same economic entity. For example, a national health department is mandated through legislation to transfer its primary school nutrition programme to the education department. Because the education department is identified as the acquirer, and both departments are within the national sphere of government and within the same economic entity, the transfer of functions falls within the scope of the Standard of GRAP on *Transfer of Functions Between Entities Under Common Control*.

12 The extent of non-controlling interests in each of the entities that are involved in a transfer of functions before and after the transfer of functions is not relevant in determining whether the transaction or event involves entities under common control.

## Function

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

- (a) **Input:** Any resource that creates, or has the ability to create, outputs when one or more processes are applied to it. Examples include non-current assets (including intangible assets or rights to use non-current assets), intellectual property and the ability to obtain access to necessary materials or rights and employees.
- (b) **Process:** Any system, standard, protocol, convention or rule that when applied to an input or inputs, creates or has the ability to create outputs. Examples include strategic management processes, operational processes and resource management processes. These processes typically are documented, but an organised workforce having the necessary skills and experience following rules and conventions may provide the necessary processes that are capable of being applied to inputs to create outputs. (Accounting, billing, payroll and other administrative systems typically are not processes used to create outputs.)
- (c) **Output:** The result of inputs and processes applied to achieve and

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capital contributions other than through the issue of shares or other unissued capital, the following evidence may indicate that the contribution is a residual interest:

- (a) there is a formal designation of the contribution by the parties to the transaction either before or at the time of the contribution; or
- (b) there is a formal agreement between the parties specifying that the contribution represents a residual interest of another entity.

Even though a formal transfer of resources may be proven by a designation or formal agreement, an entity assesses the nature of the transfer based on its substance and not merely its legal form.

### Identifying a transfer of functions between entities not under common control

.19 *An entity shall determine whether a transaction or other event is a transfer of functions between entities not under common control by applying the definition in this Standard, which requires that the assets acquired and liabilities assumed constitute a function. If the assets acquired or liabilities assumed are not a function, the reporting entity shall account for the transaction or other event as in accordance with the applicable Standard of GRAP.*

.20 This Standard defines a transfer of functions as the reorganisation and/or the re-allocation of functions between entities by transferring functions between entities or into another entity. The transfer of functions must be undertaken between entities not under common control. An acquirer might obtain control of an acquiree in a variety of ways, for example:

- (a) by transferring cash, cash equivalents or other assets (including net assets that constitute a function);
- (b) by incurring liabilities;
- (c) by exchanging residual interests;
- (d) by providing more than one type of consideration; or
- (e) without transferring consideration, including through a binding arrangement.

.21 A transfer of functions between entities not under common control may be structured in a variety of ways, which include but are not limited to:

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improve efficiency. This may be in the form of achieving service delivery objectives, or the delivery of goods and/or services.

.14 However, to be capable of being conducted and managed for the purposes defined, a function requires two essential elements — inputs and processes applied to those inputs, which together may or will be used to create outputs. However, a function need not include all of the inputs or processes that will be used in operating that function if entities are capable of acquiring the function and continuing to produce outputs, for example, by integrating the function with their own inputs and processes.

.15 The nature of the elements of a function varies by the structure of an entity's operations (activities), including the entity's stage of development. Established functions often have many different types of inputs, processes and outputs, whereas new functions often have few inputs and processes and sometimes only a single output. Nearly all functions also have liabilities, but a function need not have liabilities.

.16 A function in the development stage might not have outputs. If not, other factors should be considered to determine whether the integrated set of activities meets the definition of a function. Those factors include, but are not limited to, whether the function:

- (a) has begun planned principal activities;
- (b) has employees, intellectual property and other inputs and processes that could be applied to those inputs;
- (c) is pursuing a plan to produce outputs; or
- (d) will be able to obtain access to economic benefits or service potential.

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

### Residual interest

.17 A residual interest is a contract that shows evidence of an interest in the net assets of another entity. A residual interest entitles the holder of the interest to a part of the net assets of an entity, and any payments made to the holder are discretionary, e.g. dividends or similar distributions are paid to holders of residual interests at management's discretion.

.18 In the public sector, various forms of contributed capital exist. For example, some public entities may issue shares, while others may have been given capital contributions through the budget process. Where an entity receives

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- (a) one or more functions become controlled entities of an acquirer or the net assets of one or more functions are legally acquired or transferred by the acquirer; or
- (b) one entity transfers its net assets, or its owners transfer their residual interests, to another entity or its owners.

### The acquisition method

.22 **An entity shall account for each transfer of functions between entities not under common control by applying the acquisition method.**

- .23 Applying the acquisition method requires:
- (a) identifying the acquirer;
- (b) determining the acquisition date;
- (c) recognising and measuring the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree; and
- (d) recognising the difference between (c) and the consideration transferred to the seller.

### Identifying the acquirer

.24 **For each transfer of functions between entities not under common control, one of the combining entities shall be identified as the acquirer.**

- .25 The terms and conditions of a transfer of functions undertaken between entities not under common control are set out in a binding arrangement. This arrangement may be evidenced in a number of ways and may encompass a formal written agreement between the entities, legislation passed in parliament or a provincial legislature, cabinet decision, ministerial order, a decision made by a municipal council, regulation or a notice or other official means. In a transfer of functions, it is assumed that one of the parties to the transaction or event can be identified as the acquirer. The binding arrangement governing the terms and conditions of a transfer of functions may identify which entity to the transaction or event is the combining entities and which entity is the acquirer.

- .26 In a transfer of functions effected primarily by transferring cash or other assets (where applicable) or by incurring liabilities, the acquirer is usually the entity that transfers the cash or other assets (where applicable) or incurs the liabilities.

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- .27 In a transfer of functions effected primarily by exchanging residual interests, the acquirer is the entity that does not experience a change in control.

- .28 In a transfer of functions involving more than one entity, one of the entities that existed before the transaction or event may be identified as the acquirer on the basis of available evidence available. For example, if the management of one of the entities involved in the transfer of functions dominates the selection of the management team in the newly established entity, the dominant entity is usually the acquirer.

- .29 Determining the acquirer shall include a consideration of, amongst other things, which of the combining entities initiated the transaction or event, the relative size of the combining entities, as well as whether the assets or revenue of one of the entities involved in the transaction or event significantly exceed those of the other entities. If no acquirer can be identified, the transaction or event should be accounted for in terms of the Standard of GRAP on Mergers.

### Determining the acquisition date

.30 **The acquirer shall identify the acquisition date, which is the date on which it obtains control of the acquiree.**

- .31 The binding arrangement governing the terms and conditions of a transfer of functions between entities not under common control may specify that the transaction or event is effective from a specific date. The date on which the acquirer obtains control of the functions is the date on which the acquirer transfers the consideration (if any), acquires the assets and assumes the liabilities of the acquiree as identified to in the binding arrangement. However, the acquirer may obtain control on a date that is either earlier or later than the date on which the assets and liabilities are transferred by the acquiree, or specified in the binding arrangement. For example, legislation passed in Parliament on 1 April 20X1 requires department A to take over the functions of department B. The departments are not within the same economic entity as they are not within the same sphere of government. A directive is issued stating that the effective date of the transfer is 1 June 20X1. Department A however only obtains control of the assets and liabilities on 1 July 20X1 through a memorandum of understanding drawn up between the two departments. As department A can only use or otherwise benefit from the transfer of functions in pursuit of its objectives, or exclude or otherwise regulate the access of others to those benefits from 1 July 20X1, the transaction or event should be accounted for as from 1 July 20X1. An acquirer shall consider all relevant facts and circumstances in identifying the acquisition date.

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

**Recognising and measuring the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree**

**Recognition principle**

- .33 *As of the acquisition date, the acquirer shall recognise, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree. Recognition of identifiable assets acquired and liabilities assumed is subject to the conditions specified in paragraphs .34 to .36.*

**Recognition conditions**

- .34 To qualify for recognition as part of applying the acquisition method, the identifiable assets acquired and liabilities assumed must meet the definitions of assets and liabilities in the *Framework for the Preparation and Presentation of Financial Statements* and the recognition criteria in the applicable Standards of GRAP at the acquisition date. For example, costs the acquirer expects but is not obliged to incur in the future to effect its plan to exit an activity of an acquiree or to terminate the employment of or relocate an acquiree's employees are not liabilities at the acquisition date. Therefore, the acquirer does not recognise those costs as part of applying the acquisition method. Instead, the acquirer recognises those costs in its post-combination financial statements in accordance with other Standards of GRAP.

- .35 In addition, to qualify for recognition as part of applying the acquisition method, the identifiable assets acquired and liabilities assumed must be part of what the acquirer and the acquiree (or its former owners) agreed in the binding arrangement rather than the result of separate transactions. The acquirer shall apply the guidance in paragraphs .77 to .83 to determine which assets acquired or liabilities assumed are part of the transfer of functions for the acquiree and which, if any, are the result of separate transactions to be accounted for in accordance with their nature and the applicable Standards of GRAP.

- .36 The acquirer's application of the recognition principle and conditions may result in recognising some assets and liabilities that the acquiree had not previously recognised as assets and liabilities in its financial statements. For example, the acquirer recognises the acquired identifiable intangible assets,

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such as a brand name, a patent or a customer relationship, that the acquiree did not recognise as assets in its financial statements because it developed them internally and charged the related costs to expense.

- .37 Paragraphs .38 to .44 provides guidance on recognising operating leases and intangible assets. Paragraphs .56 to .60 specify the types of identifiable assets and liabilities that include items for which this Standard provides limited exceptions to the recognition principle and conditions.

**Operating leases**

- .38 The acquirer shall recognise no assets or liabilities related to an operating lease in which the acquiree is the lessee except as required by paragraphs .39 and .40.

- .39 The acquirer shall determine whether the terms of each operating lease in which the acquiree is the lessee are favourable or unfavourable. The acquirer shall recognise an intangible asset if the terms of an operating lease are favourable relative to market terms and a liability if the terms are unfavourable relative to market terms. Paragraph .54 provides guidance on measuring the acquisition-date fair value of assets subject to operating leases in which the acquiree is the lessor.

- .40 An identifiable intangible asset may be associated with an operating lease, which may be evidenced by market participants' willingness to pay a price for the lease even if it is at market terms.

**Intangible assets**

- .41 The acquirer shall separately recognise the identifiable intangible assets acquired in a transfer of functions. An intangible asset is identifiable if it meets either the separability criterion or the contractual-legal right criterion.

- .42 An intangible asset that meets the contractual-legal right criterion is identifiable even if the asset is not transferable or separable from the acquiree or from other rights and obligations. For example:

- (a) an acquiree leases a manufacturing facility under an operating lease that has terms that are favourable relative to market terms. The lease terms explicitly prohibit transfer of the lease (through either sale or sublease). The amount by which the lease terms are favourable compared with the terms of current market transactions for the same or similar items is an intangible asset that meets the contractual-legal right criterion for separate recognition, even though the acquirer cannot sell or otherwise transfer the lease contract.

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(b) an acquiree owns and operates a power plant. The licence to operate that power plant is an intangible asset that meets the contractual-legal right criterion for separate recognition, even if the acquirer cannot sell or transfer it separately from the acquired power plant. An acquirer may recognise the fair value of the operating licence and the fair value of the power plant as a single asset for financial reporting purposes if the useful lives of those assets are similar.

(c) an acquiree owns a technology patent. It has licensed that patent to others for their exclusive use outside the domestic market, receiving a specified percentage of future foreign revenue in exchange. Both the technology patent and the related licence agreement meet the contractual-legal right criterion for separate recognition separately even if selling or exchanging the patent and the related licence agreement separately from one another would not be practical.

.43 The separability criterion means that an acquired intangible asset is capable of being separated or divided from the acquiree and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable asset or liability. An intangible asset that the acquirer would be able to sell, license or otherwise exchange for something else of value meets the separability criterion even if the acquirer does not intend to sell, license or otherwise exchange it. An acquired intangible asset meets the separability criterion if there is evidence of exchange transactions for that type of asset or an asset of a similar type, even if those transactions are infrequent and regardless of whether the acquirer is involved in them. For example, customer lists are frequently licensed and thus meet the separability criterion. Even if an acquiree believes its customer lists have characteristics different from other customer lists, the fact that customer lists are frequently licensed generally means that the acquired customer list meets the separability criterion. However, a customer list acquired in a transfer of functions would not meet the separability criterion if the terms of confidentiality or other agreements prohibit an entity from selling, leasing or otherwise exchanging information about its customers.

.44 An intangible asset that is not individually separable from the acquiree meets the separability criterion if it is separable in the transfer of functions with a related contract, identifiable asset or liability. For example:

- (a) market participants exchange deposit liabilities and related depositor relationship intangible assets in observable exchange transactions. Therefore, the acquirer should recognise the depositor relationship intangible asset separately.
- (b) an acquiree owns a registered trademark and documented but unpatented technical expertise used to manufacture the trademarked intangible asset separately.

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product. To transfer ownership of a trademark, the owner is also required to transfer everything else necessary for the new owner to produce a product or service indistinguishable from that produced by the former owner. Because the unpatented technical expertise must be separated from the acquiree and sold if the related trademark is sold, it meets the separability criterion.

*Classifying or designating identifiable assets acquired and liabilities assumed in a transfer of functions*

.45 **At the acquisition date, the acquirer shall classify or designate the identifiable assets acquired and liabilities assumed as necessary to apply other Standards of GRAP subsequent to the acquisition date. The acquirer shall make those classifications or designations on the basis of the terms of the binding arrangement, economic conditions, its operating or accounting policies and other relevant conditions as they exist at the acquisition date.**

.46 In some situations, Standards of GRAP provide for different accounting depending on how an entity classifies or designates a particular asset or liability. Examples of classifications or designations that the acquirer shall make on the basis of the relevant conditions as they exist at the acquisition date include but are not limited to:

- (a) classification of particular financial assets and liabilities as a financial asset or liability at fair value or amortised cost in accordance with the Standard of GRAP on *Financial Instruments*;
- (b) assessment of whether an embedded derivative should be separated from the host contract in accordance with the Standard of GRAP on *Financial Instruments*.

.47 An exception to the requirement in paragraph .45 to the classification or designation of the assets acquired and liabilities assumed on the acquisition date, is that the acquirer shall classify the following contracts on the basis of the contractual terms and other factors at the inception of the contract (or, if the terms of the contract have been modified in a manner that would change its classification, at the date of that modification, which might be the acquisition date):

- (a) classification of a lease contract as either an operating lease or a finance lease in accordance with the Standard of GRAP on *Leases*; and
- (b) classification of a contract as an insurance contract in accordance with the International Financial Reporting Standard on *Insurance Contracts*.

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uncertainty about future cash flows are included in the fair value measure. For example, because this Standard requires the acquirer to measure acquired receivables, including loans, at their acquisition-date fair values, the acquirer does not recognise a separate valuation allowance for the contractual cash flows that are deemed to be uncollectible at that date.

Assets subject to operating leases in which the acquiree is the lessor

.54 In measuring the acquisition-date fair value of an asset such as a building or a patent that is subject to an operating lease in which the acquiree is the lessor, the acquirer shall take into account the terms of the lease. In other words, the acquirer does not recognise a separate asset or liability if the terms of an operating lease are either favourable or unfavourable when compared with market terms for leases in which the acquiree is the lessor.

#### Exceptions to the recognition or measurement principles

.55 This Standard provides limited exceptions to its recognition and measurement principles. Paragraphs .56 to .63 specify both the particular items for which exceptions are provided and the nature of those exceptions. The acquirer shall account for those items by applying the requirements in paragraphs .56 to .63, which will result in some items being:

- (a) Recognised either by applying recognition conditions in addition to those in paragraphs .34 and .35 or by applying the requirements of other Standards of GRAP, with results that differ from applying the recognition principle and conditions.
- (b) Measured at an amount other than their acquisition-date fair values.

Exceptions to the recognition principles

#### Contingent liabilities

.56 The Standard of GRAP on *Provisions, Contingent Liabilities and Contingent Assets* defines a contingent liability as:

- (a) a possible obligation that arises from past events, and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or
- (b) a present obligation that arises from past events but is not recognised because:

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#### Measurement principle

.48 **The acquirer shall measure the identifiable assets acquired and the liabilities assumed at their acquisition-date fair values.**

Non-controlling interest in an acquiree

.49 For each transfer of functions, the acquirer shall measure at the acquisition date components of non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation at either:

- (a) fair value; or
- (b) the present ownership instruments' proportionate share in the recognised amounts of the acquiree's identifiable net assets.

All other components of non-controlling interests shall be measured at their acquisition-date fair values, unless another measurement basis is required by the Standards of GRAP.

.50 Sometimes an acquirer will be able to measure the acquisition-date fair value of a non-controlling interest on the basis of active market prices for the equity shares not held by the acquirer. In other situations, however, an active market price for the equity shares will not be available. In those situations, the acquirer would measure the fair value of the non-controlling interest using other valuation techniques.

.51 The fair values of the acquirer's interest in the acquiree and the non-controlling interest on a per-share basis might differ. The main difference is likely to be the inclusion of a control premium in the per-share fair value of the acquirer's interest in the acquiree or, conversely, the inclusion of a discount for lack of control (also referred to as a minority discount) in the per-share fair value of the non-controlling interest.

.52 Paragraphs .53 and .54 provide guidance on measuring the fair value of particular identifiable assets. Paragraphs .56 to .63 specify the types of identifiable assets and liabilities that include items for which this Standard provides limited exceptions to the recognition or measurement principle.

Assets with uncertain cash flows (valuation allowances)

.53 The acquirer shall not recognise a separate valuation allowance as of the acquisition date for assets acquired in a transfer of functions that are measured at their acquisition-date fair values because the effects of

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- (i) it is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; or
- (ii) the amount of the obligation cannot be measured with sufficient reliability.

.57 The requirements in the Standard of GRAP on *Provisions, Contingent Liabilities and Contingent Assets* do not apply in determining which contingent liabilities to recognise as of the acquisition date. Instead, the acquirer shall recognise as of the acquisition date a contingent liability assumed in a transfer of functions if it is a present obligation that arises from past events and its fair value can be measured reliably. Therefore, contrary to the Standard of GRAP on *Provisions, Contingent Liabilities and Contingent Assets*, the acquirer recognises a contingent liability assumed in a transfer of functions at the acquisition date even if it is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation. Paragraph .86 provides guidance on the subsequent accounting for contingent liabilities.

*Exceptions to both the recognition and measurement principles*

## Employee benefits

.58 The acquirer shall recognise and measure a liability (or asset, if any) related to the acquirer's employee benefit arrangements in accordance with the Standard of GRAP on *Employee Benefits*.

## Indemnification assets

.59 The seller in a transfer of functions may contractually indemnify the acquirer for the outcome of a contingency or uncertainty related to all or part of a specific asset or liability. For example, the seller may indemnify the acquirer against losses above a specified amount on a liability arising from a particular contingency; in other words, the seller will guarantee that the acquirer's liability will not exceed a specified amount. As a result, the acquirer obtains an indemnification asset. The acquirer shall recognise an indemnification asset at the same time that it recognises the indemnified item measured on the same basis as the indemnified item, subject to the need for a valuation allowance for uncollectible amounts. Therefore, if the indemnification relates to an asset or a liability that is recognised at the acquisition date and measured at its acquisition-date fair value, the acquirer shall recognise the indemnification asset at the acquisition date measured at its acquisition-date fair value. For an indemnification asset measured at fair value, the effects of uncertainty about future cash flows because of collectability considerations are included in the fair value measure and a separate valuation allowance is not necessary (paragraph

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.53 provides related application guidance).

.60 In some circumstances, the indemnification may relate to an asset or a liability that is an exception to the recognition or measurement principles. Alternatively, an indemnification may relate to an asset or a liability, for example, one that results from an employee benefit, that is measured on a basis other than acquisition-date fair value. In those circumstances, the indemnification asset shall be recognised and measured using assumptions consistent with those used to measure the indemnified item, subject to management's assessment of the collectability of the indemnification asset and any contractual limitations on the indemnified amount. Paragraph .87 provides guidance on the subsequent accounting for an indemnification asset.

*Exceptions to the measurement principle*

## Reacquired rights

.61 The acquirer shall measure the value of a reacquired right recognised as an intangible asset on the basis of the remaining contractual term of the related contract or other binding arrangement regardless of whether market participants would consider potential renewals of the contract or other binding arrangement in determining its fair value. Paragraphs .62 and .63 provide related application guidance.

.62 As part of a transfer of functions, an acquirer may reacquire a right that it had previously granted to the acquiree to use one or more of the acquirer's recognised or unrecognised assets. A reacquired right is an intangible asset that the acquirer recognises separately from the difference between the identifiable assets acquired and liabilities assumed and the consideration transferred (if any). Paragraph .61 provides guidance on measuring a reacquired right and paragraph .85 provides guidance on the subsequent accounting for a reacquired right.

.63 If the terms of the binding arrangement giving rise to a reacquired right are favourable or unfavourable relative to the terms of current market transactions for the same or similar items, the acquirer shall recognise a settlement gain or loss. Paragraph .81 provides guidance for measuring that settlement gain or loss.

**Recognising and measuring the difference between the assets acquired and liabilities assumed and the consideration transferred (if any)**

.64 *The acquirer shall recognise the difference between the assets acquired and liabilities assumed and the consideration transferred (if any) as of the acquisition date in surplus or deficit. This difference is measured as the*

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excess of (a) over (b) below:  
(a) the aggregate of:

- (i) the consideration transferred (if any) measured in accordance with this Standard, which generally requires acquisition-date fair value (see paragraph .65);
  - (ii) the amount of any non-controlling interest in the acquiree measured in accordance with this Standard; and
  - (iii) in a transfer of functions achieved in stages (see paragraphs .69 and .70), the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree.
- (b) the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed measured in accordance with this Standard.

## Consideration transferred

.65 The consideration transferred in a transfer of functions shall be measured at fair value, which shall be calculated as the sum of the acquisition-date fair values of the assets transferred by the acquirer, the liabilities incurred by the acquirer to former owners of the acquiree and the residual interests issued by the acquirer. Examples of potential forms of consideration include cash, other assets, a function or a controlled entity of the acquirer, contingent consideration, equity instruments, options, warrants and other owner interests.

.66 The consideration transferred may include assets or liabilities of the acquirer that have carrying amounts that differ from their fair values at the acquisition date (for example, non-monetary assets or a function of the acquirer). If so, the acquirer shall remeasure the transferred assets or liabilities to their fair values as of the acquisition date and recognise the resulting gains or losses, if any, in surplus or deficit. However, sometimes the transferred assets or liabilities remain within the combined entity after the transfer of function (for example, because the assets or liabilities were transferred to the acquiree rather than to its former owners), and the acquirer therefore retains control of them. In that situation, the acquirer shall measure those assets and liabilities at their carrying amounts immediately before the acquisition date and shall not recognise a gain or loss in surplus or deficit on assets or liabilities it controls both before and after the transfer of functions.

## Contingent consideration

.67 The consideration the acquirer transfers in exchange for the acquiree includes any asset or liability resulting from a contingent consideration arrangement (see

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paragraph .65). The acquirer shall recognise the acquisition-date fair value of contingent consideration as part of the consideration transferred in exchange for the acquiree.

.68 The acquirer shall classify an obligation to pay contingent consideration as a liability or as net assets on the basis of the definitions of a residual interest and a financial liability in the Standard of GRAP on *Financial Instruments*, or other applicable Standard of GRAP. The acquirer shall classify as an asset a right to the return of previously transferred consideration if specified conditions are met. Paragraph .88 provides guidance on the subsequent accounting for contingent consideration.

## A transfer of functions achieved in stages

.69 An acquirer sometimes obtains control of an acquiree in which it held a residual interest immediately before the acquisition date. For example, on 31 March 20X1, Entity A holds a 35 per cent non-controlling interest in Entity B. On that date, Entity A purchases an additional 40 per cent interest in Entity B, which gives it control of Entity B. This Standard refers to such a transaction as a transfer of functions achieved in stages, sometimes also referred to as a step acquisition.

.70 In a transfer of functions achieved in stages, the acquirer shall remeasure its previously held residual interest in the acquiree at its acquisition-date fair value and recognise the resulting gain or loss, if any, in surplus or deficit. In prior reporting periods, the acquirer may have recognised changes in the value of its residual interest in the acquiree in surplus or deficit. If so, the amount that was recognised in surplus or deficit shall be recognised on the same basis as would be required if the acquirer had disposed directly of the previously held residual interest.

## Measurement period

.71 *If the initial accounting for a transfer of functions is incomplete by the end of the reporting period in which the transfer occurs, the acquirer shall report in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, the acquirer shall retrospectively adjust the provisional amounts recognised at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and, if known, would have affected the measurement of the amounts recognised as of that date. During the measurement period, the acquirer shall also recognise additional assets or liabilities if new information is obtained about facts and circumstances that existed as of the acquisition date and, if known, would have resulted in the recognition of those assets and liabilities as of*

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**that date. The measurement period ends as soon as the acquirer receives the information it was seeking about facts and circumstances that existed as of the acquisition date or learns that more information is not obtainable. However, the measurement period shall not exceed two years from the acquisition date.**

- .72 The measurement period is the period after the acquisition date during which the acquirer may adjust the provisional amounts recognised for a transfer of functions. The measurement period provides the acquirer with reasonable time to obtain the information necessary to identify and measure the following as of the acquisition date in accordance with the requirements of this Standard:
- the identifiable assets acquired, liabilities assumed and any non-controlling interest in the acquiree;
  - the consideration transferred, if any, for the acquiree;
  - in a transfer of functions achieved in stages, the interest in the acquiree previously held by the acquirer; and
  - the resulting excess of the purchase consideration paid (if any) over the fair value of the assets acquired and liabilities assumed.

- .73 The acquirer shall consider all relevant factors in determining whether information obtained after the acquisition date should result in an adjustment to the provisional amounts recognised or whether that information results from events that occurred after the acquisition date. Relevant factors include the date when additional information is obtained and whether the acquirer can identify a reason for a change to provisional amounts. Information that is obtained shortly after the acquisition date is more likely to reflect circumstances that existed at the acquisition date than is information obtained several months later. For example, unless an intervening event that changed its fair value can be identified, the sale of an asset to a third party shortly after the acquisition date for an amount that differs significantly from its provisional fair value determined at that date is likely to indicate an error in the provisional amount.

- .74 The acquirer recognises an increase (decrease) in the provisional amount recognised for an identifiable asset (liability) by means of decreasing (increasing) the excess of the purchase consideration paid (if any) over the fair value of the assets acquired and liabilities assumed previously recognised in surplus or deficit. However, new information obtained during the measurement period may sometimes result in an adjustment to the provisional amount of more than one asset or liability. For example, the acquirer might have assumed a liability to pay damages related to an accident in one of the acquiree's facilities, part or all of which are covered by the acquiree's liability insurance policy. If the acquirer obtains new information during the measurement period about the

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acquisition-date fair value of that liability, the adjustment to the excess resulting from a change to the provisional amount recognised for the liability would be offset (in whole or in part) by a corresponding adjustment to the previously recognised excess in surplus or deficit resulting from a change to the provisional amount recognised for the claim receivable from the insurer.

- .75 During the measurement period, the acquirer shall recognise adjustments to the provisional amounts as if the accounting for the transfer of functions had been completed at the acquisition date. Thus, the acquirer shall revise comparative information for prior periods presented in financial statements as needed, including making any change in depreciation, amortisation or other income effects recognised in completing the initial accounting.

- .76 After the measurement period ends, the acquirer shall revise the accounting for a transfer of functions only to correct an error in accordance with the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors.

**Determining what is part of the transfer of functions transaction**

- .77 ***The acquirer and the acquiree may have a pre-existing relationship or other arrangement before or when negotiations for the transfer of functions began, or they may enter into a binding arrangement during the negotiations that is separate from the transfer of functions. In either situation, the acquirer shall identify any amounts that are not part of what the acquirer and the acquiree (or its former owners) exchanged in the transfer of functions. The acquirer shall recognise as part of applying the acquisition method only the consideration transferred (if any) for the acquiree and the assets acquired and liabilities assumed by the acquirer in the transfer of functions as governed by the terms and conditions of the binding arrangement. Apart from the transactions identified in paragraphs .80 and .81, separate transactions shall be accounted for in accordance with the relevant Standards of GRAP.***

- .78 The following are examples of separate transactions that are not to be included in applying the acquisition method:

- a transaction that in effect settles pre-existing relationships between the acquirer and acquiree;
- a transaction that reimburses the acquiree or its former owners for paying the acquirer's acquisition-related costs; and
- contributions received from third parties as compensation for future services as a result of undertaking a transfer of functions.

Paragraphs .79 to .82 provide related application guidance.

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.79 The acquirer should consider the following factors, which are neither mutually exclusive nor individually conclusive, to determine whether a transaction is part of the transfer of functions or whether the transaction is separate from the transfer of functions:

- (a) **the reasons for the transaction** — Understanding the reasons for the transaction may provide insight into whether it is part of the consideration transferred, if any, and the assets acquired or transferred or liabilities assumed or relinquished. For example, amounts due by the acquiree from a previous arrangement between the acquirer as a service provided will not form part of the transfer of functions as the services provided were primarily for the benefit of the acquiree rather than for the benefit of the acquirer.
- (b) **the timing of the transaction** — The timing of the transaction may also provide insight into whether it is part of the consideration, if any, for the acquiree.

**Effective settlement of a pre-existing relationship between the acquirer and acquiree in a transfer of functions (application of paragraph .78(a))**

.80 A pre-existing relationship between the acquirer and acquiree may be contractual (for example, vendor and customer or supplier) or non-contractual (for example, plaintiff and defendant).

.81 If the transfer of functions in effect settles a pre-existing relationship, the acquirer recognises a gain or loss, measured as follows:

- (a) for a pre-existing non-contractual relationship, fair value.
- (b) for a pre-existing contractual relationship, the lesser of (i) and (ii):
  - (i) the amount by which the binding arrangement is favourable or unfavourable from the perspective of the acquirer when compared with terms for current market transactions for the same or similar items. (An unfavourable contract is a contract that is unfavourable in terms of current market terms. It is not necessarily an onerous contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits or service potential expected to be received under it.)
  - (ii) the amount of any stated settlement provisions in the binding arrangement available to the counterparty to whom the contract is unfavourable.

If (ii) is less than (i), the difference is included as part of the transfer of functions accounting. The amount of gain or loss recognised may depend in part on whether the acquirer had previously recognised a related asset or liability, and the reported gain or loss therefore may differ from the amount calculated by

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applying the above requirements.

.82 A pre-existing relationship may be a contract that the acquirer recognises as a reacquired right. If the binding arrangement includes terms that are favourable or unfavourable when compared with pricing for current market transactions for the same or similar items, the acquirer recognises, separately from the transfer of functions, a gain or loss for the effective settlement of the contract, measured in accordance with paragraph .81.

**Acquisition-related costs**

.83 Acquisition-related costs are costs the acquirer incurs to effect a transfer of functions. Those costs include advisory, legal, accounting, valuation and other professional or consulting fees, general administrative costs, and costs of registering and issuing debt and equity securities (if applicable). The acquirer shall account for acquisition-related costs as expenses in the periods in which the costs are incurred and the services are received, with one exception. The costs to issue debt or equity securities (if applicable) shall be recognised in accordance with the Standard of GRAP on *Financial Instruments*.

**Subsequent measurement and accounting**

.84 *In general, an acquirer shall subsequently measure and account for assets acquired, liabilities assumed or incurred and the residual interest issued in a transfer of functions in accordance with other applicable Standards of GRAP for those items, depending on their nature. However, this Standard provides guidance on subsequently measuring and accounting for the following assets acquired, liabilities assumed or incurred and residual interest issued in a transfer of functions:*

- (a) *reacquired rights;*
- (b) *contingent liabilities recognised as of the acquisition date;*
- (c) *indemnification assets; and*
- (d) *contingent consideration.*

**Reacquired rights**

.85 A reacquired right recognised as an intangible asset shall be amortised over the remaining contractual period of the contract in which the right was granted. An acquirer that subsequently sells a reacquired right to a third party shall include the carrying amount of the intangible asset in determining the gain or loss on the sale.

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### Contingent liabilities

- .86 After initial recognition and until the liability is settled, cancelled or expires, the acquirer shall measure a contingent liability recognised in a transfer of functions at the higher of:
- the amount that would be recognised in accordance with the Standard of GRAP on *Provisions, Contingent Liabilities and Contingent Assets*; and
  - the amount initially recognised less, if appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on *Revenue from Exchange Transactions*.

This requirement does not apply to contracts accounted for in accordance with the Standard of GRAP on *Financial Instruments*.

### Indemnification assets

- .87 At the end of each subsequent reporting period, the acquirer shall measure an indemnification asset that was recognised at the acquisition date on the same basis as the indemnified liability or asset, subject to any limitations as set in the binding arrangement on its amount and, for an indemnification asset that is not subsequently measured at its fair value, management's assessment of the collectability of the indemnification asset. The acquirer shall derecognise the indemnification asset only when it collects the asset, sells it or otherwise loses the right to it.

### Contingent consideration

- .88 Some changes in the fair value of contingent consideration that the acquirer recognises after the acquisition date may be the result of additional information that the acquirer obtained after that date about facts and circumstances that existed at the acquisition date. However, changes resulting from events after the acquisition date, such as meeting a performance target, or reaching a milestone on a research and development project, are not measurement period adjustments. The acquirer shall account for changes in the fair value of contingent consideration that are not measurement period adjustments as follows:

- Contingent consideration classified as net assets shall not be remeasured and its subsequent settlement shall be accounted for within net assets.
- Contingent consideration classified as an asset or a liability that:
  - is a financial instrument and is within the scope of the Standard of GRAP on *Financial Instruments* shall be measured at fair value, with any resulting gain or loss recognised in surplus or deficit in accordance

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with that Standard of GRAP.

- is not within the scope of the Standard of GRAP on *Financial Instruments* shall be accounted for in accordance with the Standard of GRAP on *Provisions, Contingent Liabilities and Contingent Assets* or other Standards of GRAP as appropriate.

.89 Examples of other Standards of GRAP that provide guidance on subsequently measuring and accounting for assets acquired and liabilities assumed or incurred in a transfer of functions include:

- The Standard of GRAP on *Intangible Assets* prescribes the accounting for identifiable intangible assets acquired in a transfer of functions.
- The International Financial Reporting Standard on *Insurance Contracts* (IFRS 4) provides guidance on the subsequent accounting for an insurance contract acquired in a transfer of functions.
- The Standard of GRAP on *Consolidated and Separate Financial Statements* provides guidance on accounting for changes in a controlling entity's ownership interest in a controlled entity after control is obtained.

### Disclosures

.90 The acquirer shall disclose information that enables users of its financial statements to evaluate the nature and financial effect of a transfer of functions that occurs either:

- during the current reporting period; or
- after the end of the reporting period but before the financial statements are authorised for issue.

.91 To meet the objective in paragraph .90, the acquirer shall disclose the following information for each transfer of functions that occurs during the reporting period:

- The name and a description of the acquiree.
- The acquisition date.
- The percentage of voting rights acquired through a residual interest.
- The primary reasons for the transfer of functions and a description of how the acquirer obtained control of the acquiree.
- The acquisition-date fair value of the total consideration transferred and the acquisition-date fair value of each major class of consideration, such as:
  - cash;

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- (ii) other tangible or intangible assets, including a function or controlled entity of the acquirer;
- (iii) liabilities incurred, for example, a liability for contingent consideration; and
- (iv) residual interests of the acquirer, including the number of instruments or interests issued or issuable and the method of determining the fair value of those instruments or interests.
- (f) For contingent consideration arrangements and indemnification assets:
- (i) the amount recognised as of the acquisition date;
- (ii) a description of the arrangement and the basis for determining the amount of the payment; and
- (iii) an estimate of the range of outcomes (undiscounted) or, if a range cannot be estimated, that fact and the reasons why a range cannot be estimated. If the maximum amount of the payment is unlimited, the acquirer shall disclose that fact.
- (g) For acquired receivables:
- (i) the fair value of the receivables;
- (ii) the gross contractual amounts receivable; and
- (iii) the best estimate at the acquisition date of the contractual cash flows not expected to be collected.
- The disclosures shall be provided by major class of receivable, such as loans, direct finance leases and any other class of receivables.
- (h) The amounts recognised as of the acquisition date for each major class of assets acquired and liabilities assumed.
- (i) Additional contingent liabilities, and contingent assets assumed or acquired in the transfer of functions.
- (j) For transactions that are recognised separately from the acquisition of assets and assumption of liabilities in the transfer of functions in accordance with paragraph .77:
- (i) a description of each transaction;
- (ii) how the acquirer accounted for each transaction;
- (iii) the amounts recognised for each transaction and the line item in the financial statements in which each amount is recognised; and
- (iv) if the transaction is the effective settlement of a pre-existing relationship, the method used to determine the settlement amount.

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- (k) The disclosure of separately recognised transactions required by (j) shall include the amount of acquisition-related costs and, separately, the amount of those costs recognised as an expense. The amount of any issue costs not recognised as an expense and how they were recognised shall also be disclosed.
- (l) For each transfer of function in which the acquirer holds less than 100 per cent of the equity interests in the acquiree at the acquisition date:
- (i) the amount of the non-controlling interest in the acquiree recognised at the acquisition date and the measurement basis for that amount; and
- (ii) for each non-controlling interest in an acquiree measured at fair value, the valuation techniques and key model inputs used for determining that value.
- (m) In a transfer of functions achieved in stages:
- (i) the acquisition-date fair value of the residual interest in the acquiree held by the acquirer immediately before the acquisition date; and
- (ii) the amount of any gain or loss recognised as a result of remeasuring to fair value the residual interest in the acquiree held by the acquirer before the transfer of functions (see paragraph .70) and the line item in the consolidated statement of financial performance in which that gain or loss is recognised.
- (n) The following information:
- (i) the amounts of revenue and surplus or deficit of the acquiree since the acquisition date; and
- (ii) the revenue and surplus or deficit of the combined entity for the current reporting period as though the acquisition date for all transfer of functions that occurred during the year had been as of the beginning of the annual reporting period.
- If disclosure of any of the information required by this paragraph is impracticable, the acquirer shall disclose that fact and explain why the disclosure is impracticable. This Standard uses the term 'impracticable' with the same meaning as in the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors.
- .92 The acquirer shall disclose the difference between the assets acquired and liabilities assumed and the consideration transferred (if any), as a separate line item in the statement of financial performance.
- .93 For individually immaterial transfer of functions occurring during the reporting period that are material collectively, the acquirer shall disclose

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- previous reporting period; and
- (ii) is of such a size, nature or incidence that disclosure is relevant to understanding the combined entity's financial statements.
- .96 If the specific disclosures required by this and other Standards of GRAP do not meet the objectives set out in paragraphs .91 and .95, the acquirer shall disclose whatever additional information is necessary to meet those objectives.

### Transitional provisions

- .97 The transitional provisions to be applied by entities on the initial adoption of this Standard are prescribed in a directive(s). The provisions of this Standard shall be read in conjunction with each applicable directive.

### Effective date

- .98 An entity shall apply this Standard of GRAP for annual financial statements covering periods beginning on or after a date to be determined by the Minister of Finance in a regulation to be published in accordance with section 91(1)(b) of the Public Finance Management Act, Act No. 1 of 1999, as amended.
- .99 The guidance on the measurement period as included in paragraphs .71 to .76 will only become effective once Directives 2 to 4 that prescribe the transitional provisions for entities on the initial adoption of the Standards of GRAP are withdrawn.



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- in aggregate the information required by paragraph .91 (e) – (n).
- .94 The acquirer shall disclose information that enables users of its financial statements to evaluate the financial effects of adjustments recognised in the current reporting period that relate to transfer of functions that occurred in the period or previous reporting periods.
- .95 The acquirer shall disclose the following information for each material transfer of functions or in the aggregate for individually immaterial transfer of functions that are material collectively:
- (a) if the initial accounting for a transfer of functions is incomplete (see paragraph .70) for particular assets, liabilities, non-controlling interests or any consideration and the amounts recognised in the financial statements for the transfer of functions thus have been determined:
- the reasons why the initial accounting for the transfer of functions is incomplete;
  - the assets, liabilities, residual interest or any consideration for which the initial accounting is incomplete; and
  - the nature and the amount of any measurement period adjustments recognised during the reporting period in accordance with paragraph .75.
- (b) for each reporting period after the acquisition date until the entity collects, sells or otherwise loses the right to a contingent consideration asset, or until the entity settles a contingent consideration liability or the liability is cancelled or expires:
- any changes in the recognised amounts, including any differences arising upon settlement;
  - any changes in the range of outcomes (undiscounted) and the reasons for those changes; and
  - the valuation techniques and key model inputs used to measure contingent consideration.
- (c) for contingent liabilities recognised in a transfer of functions, the acquirer shall disclose the information required by paragraphs .107 and .108 of the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets for each class of provision.
- (d) the amount and an explanation of any gain or loss recognised in the current reporting period that both:
- relates to the identifiable assets acquired or liabilities assumed in a transfer of functions that was effected in the current or

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## Appendix – Consequential amendments to other Standards of GRAP

*The purpose of the appendix is to identify the consequential amendments to other Standards of GRAP resulting from the issue of the Standard of GRAP on Transfer of Functions Between Entities Not Under Common Control.*

Amended text is shown with new text underlined and deleted text struck through.

### Amendments to the Framework for the Preparation and Presentation of Financial Statements (Framework)

A1. Amend paragraph .38 in the 'Going concern' section of the Framework as follows:

#### Going concern

.38 The financial statements should be prepared on the assumption that an entity is a going concern, and will continue in operation for the foreseeable future. Financial problems of public sector entities are normally resolved by either the ability to raise taxes or some other intervention in order to ensure the services are maintained. Accordingly, a consideration of the going concern involves judgement on whether the entity will continue in its present or some modified form, which may include a merger. Only on rare occasions will the activities cease altogether e.g., when the government discontinues a guarantee of debt and no other intervention is proposed for the entity to continue as a going concern. In those circumstances, the financial statements may have to be prepared on a different basis and, if so, the basis used is disclosed.

### The Standard of GRAP on Presentation of Financial Statements (Issued 2004)

A2. Amend the following paragraphs in GRAP 1:

#### Going concern

.28 Financial statements are normally prepared on the assumption that the entity is a going concern and will continue in operation or some modified form, for example a merger, and meet its statutory obligations for the foreseeable future. In assessing whether the going concern assumption is appropriate, those responsible for the preparation of the financial statements take into account all available information about the future, which is at least, but is not limited to, twelve months from the reporting date.

.99 Circumstances that would give rise to the separate disclosure of items of revenue and expense include:



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- (a) the write-downs of inventories to net realisable value or property, plant and equipment to recoverable amount, as well as the reversals of such write-downs;
- (b) restructurings of the activities of an entity and the reversals of any provisions for the costs of restructuring;
- (c) disposals of items of property, plant and equipment;
- (d) disposals of investments;
- (e) discontinuing operations;
- (f) litigation settlements; and
- (g) other reversals of provisions;
- (h) the difference between the assets acquired and liabilities assumed and the consideration transferred to an acquiree (if any) in a transfer of functions between entities not under common control.

.110 An entity shall present a statement of changes in net assets, showing on the face of the statement:

- (a) the surplus or deficit for the period;
- (b) each item of revenue and expense that, as required by other Standards of GRAP, is recognised directly in net assets, and the total of these items;
- (c) total revenue and expense for the period (calculated as the sum of (a) and (b)), showing separately the total amounts attributable to net assets holders of the controlling entity and to minority interest; and
- (d) for each component of net assets, the effects of changes in accounting policies and the correction of prior period errors recognised in accordance with the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors; and
- (e) for each component of net assets the effect of a transfer of functions and a merger in accordance with the Standards of GRAP on Transfer of Functions Between Entities Under Common Control or Mergers.

### Appendix – Illustrative examples ENTITY – STATEMENT OF FINANCIAL PERFORMANCE (ILLUSTRATING THE CLASSIFICATION OF EXPENSES BY FUNCTION)

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<u>Gain or loss from transfer of functions between entities under common control</u>	(X)				(X)
<u>Gain or loss from mergers</u>	(X)				(X)
<b>Balance at 31 December 20X1</b>	X	X	(X)	X	X
<u>Gain or loss from transfer of functions between entities under common control</u>	(X)				(X)
<u>Gain or loss from mergers</u>	(X)				(X)
<b>Balance at 31 December 20X2</b>	X	X	(X)	X	X

**The Standard of GRAP on The Effects of Changes in Foreign Exchange Rates (issued 2007)**

A3. Amend the following paragraphs in GRAP 4:

.15 The essential feature of a monetary item is a right to receive (or an obligation to deliver) a fixed or determinable number of units of currency. Examples include: child support grant obligations and other employee benefits to be paid in cash; provisions that are to be settled in cash; and cash dividends or similar distributions that are recognised as a liability. Conversely, the essential feature of a non-monetary item is the absence of a right to receive (or an obligation to deliver) a fixed or determinable number of units of currency. Examples include: amounts prepaid for goods and services (e.g. prepaid rent); goodwill; intangible assets; inventories; property, plant and equipment; and provisions that are to be settled by the delivery of a non-monetary asset.

.54 The difference between the assets acquired, the liabilities assumed and the consideration transferred (if any) Any goodwill arising on the acquisition of a foreign operation shall be accounted for in terms of the Standard of GRAP on Transfer of Functions Between Entities Not Under Common Control. and Any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of that foreign operation shall be treated as assets and liabilities of the foreign operation. Thus they shall be expressed in the functional currency of the foreign operation and shall be translated at the closing rate in accordance with paragraphs .42 and .46.



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	20X2	20X1
<b>Revenue</b>	X	X
Taxes	X	X
Fees, fines, penalties and licences	X	X
Revenue from exchange transactions	X	X
Transfers from other government entities	X	X
<u>Gain attributable to transfer of functions between entities not under common control</u>	X	X
Other operating revenue	X	X
<b>Total revenue</b>	X	X

(ILLUSTRATING THE CLASSIFICATION OF EXPENSES BY NATURE)

(in thousands of rands)

**Revenue**

	20X2	20X1
Taxes	X	X
Fees, fines, penalties and licences	X	X
Revenue from exchange transactions	X	X
Transfers from other government entities	X	X
<u>Gain attributable to transfer of functions between entities not under common control</u>	X	X
Other operating revenue	X	X
<b>Total revenue</b>	X	X

**ENTITY – STATEMENT OF CHANGES IN NET ASSETS**

	Attributable to net assets holders of the controlling entity	Minority interest	Total equity
Contributed capital	X		X
Revaluation reserve	X		X
Trans-accumulation reserve	X		X
surpluses/ (deficits)	(X)	X	X
<b>Balance at 31 December 20X0</b>	X	X	X

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**The Standard of GRAP on Financial Reporting in Hyperinflationary Economies (issued 2007)**

- A4. Amend the following paragraphs in GRAP 10:
- .16 Most non-monetary items are carried at cost or cost less depreciation; hence they are expressed at amounts current at their date of acquisition. The restated cost, or cost less depreciation, of each item is determined by applying to its historical cost and accumulated depreciation the change in a general price index from the date of acquisition to the reporting date. Hence, property, plant and equipment, investments carried at cost, inventories of raw materials and merchandise, goodwill, patents, trademarks and similar assets are restated from the dates of their purchase. Inventories of partly-finished and finished goods are restated from the dates on which the costs of purchase and of conversion were incurred.
- .20 To determine whether the restated amount of a non-monetary item has become impaired and should be reduced, an entity applies the Standards of GRAP on Impairment of Assets. Hence, in such cases, restated amounts of property, plant and equipment, goodwill, patents and trademarks are reduced to recoverable amount or recoverable service amount, and restated amounts of inventories are reduced to net realisable value and restated amounts of current investments are reduced to market value.

**The Standard of GRAP on Construction Contracts (issued 2006)**

- A5. Add the following paragraph in GRAP 11:
- .06A This Standard does not apply to the initial recognition and initial measurement of items in a construction contract acquired in a transfer of functions between entities under common control (see the Standard of GRAP on Transfer of Functions Between Entities Under Common Control) or a merger (see the Standard of GRAP on Mergers).

**The Standard of GRAP on Inventories (issued 2004)**

- A6. Amend the following paragraph in GRAP 12:
- .02 **An entity which prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for inventories. The Standard applies to all inventories, except:**
- .....

- (e) to the initial recognition and initial measurement of inventories acquired in a transfer of functions between entities under

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**common control (see the Standard of GRAP on Transfer of Functions Between Entities Under Common Control) or a merger (see the Standard of GRAP on Mergers).****The Standard of GRAP on Leases (issued 2004)**

- A7. Amend the following paragraph in GRAP 13:
- .02 **An entity which prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for all leases other than:**
- (a) the initial recognition and initial measurement of assets and liabilities in a lease agreement acquired in a transfer of functions between entities under common control (see the Standard of GRAP on Transfer of Functions Between Entities Under Common Control) or a merger (see the Standard of GRAP on Mergers).

**The Standard of GRAP on Investment Property (issued 2004)**

- A8. Amend the following paragraphs in GRAP 16:
- .04 This Standard does not apply to:
- .....
- (c) the initial recognition and initial measurement of investment property acquired in a transfer of functions between entities under common control (see the Standard of GRAP on Transfer of Functions Between Entities Under Common Control) or a merger (see the Standard of GRAP on Mergers).
- .85 **In addition to the disclosures required by paragraph .84, an entity that applies the fair value model in paragraphs .41 - .63 shall disclose a reconciliation between the carrying amounts of investment property at the beginning and end of the period, showing the following:**
- .....

- (b) additions resulting from acquisitions through a transfer of functions between entities under common control, a transfer of functions between entities not under common control or a merger, business combinations.

- .88 **In addition to the disclosures required by paragraph .84, an entity that applies the cost model in paragraph .64 shall disclose:**
- .....

- (d) **a reconciliation of the carrying amount of investment property at the beginning and end of the period, showing the following:**

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- (i) **additions, disclosing separately those additions resulting from acquisitions and those resulting from subsequent expenditure recognised as an asset,**
- (ii) **additions resulting from acquisitions through through a transfer of functions between entities under common control, a transfer of functions between entities not under common control or a merger, business-combinations,**

The Standard of GRAP on *Property, Plant and Equipment* (issued 2004)

A9. Amend the following paragraphs in GRAP 17:

**.02 An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for property, plant and equipment, except:**

.....

**(e) to the initial recognition and initial measurement of property, plant and equipment acquired in a transfer of functions between entities under common control (see the Standard of GRAP on Transfer of Functions Between Entities Under Common Control) or a merger (see the Standard of GRAP on Mergers).**

**.82 The financial statements shall disclose, for each class of property, plant and equipment recognised in the financial statements:**

.....

**(e) a reconciliation of the carrying amount at the beginning and end of the period showing:**

- (i) additions,
- (ii) disposals,
- (iii) **acquisitions through a transfer of functions between entities under common control, transfer of functions between entities not under common control or a merger business combinations,**

The Standard of GRAP on *Segment Reporting* (issued 2004)

A10. Amend the following paragraphs in GRAP 18:

**.33 The consolidated financial statements of an entity may encompass entities acquired in an entity acquisition which gives rise to purchased goodwill (guidance on accounting for the acquisition of an entity is included in the Standard of GRAP on Business Combinations). In these cases, segment assets will include goodwill that is directly attributable to a segment or that**

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**can be allocated to a segment or a reasonable basis, and segment expense includes related impairment of goodwill.**

**.36 Standards of GRAP may require adjustments to be made to the carrying amounts of the identifiable assets and liabilities of an entity acquired in an acquisition (see the Standard of GRAP on Business Transfer of Functions Between Entities Not Under Common Control). Measurements of segment assets and liabilities include any adjustments to the prior carrying amounts of the identifiable segment assets and segment liabilities of an entity acquired in a transfer of functions entity-combination accounted for as a purchase, even if those adjustments are made only for the purpose of preparing consolidated financial statements and are not recorded in either the controlling entity's or the controlled entity's separate financial statements. Similarly, if property, plant, and equipment has been revalued subsequent to acquisition in accordance with the revaluation model allowed by the Standard of GRAP on *Property, Plant and Equipment*, measurements of segment assets reflect those revaluations.**

The Standard of GRAP on *Provisions, Contingent Liabilities and Contingent Assets* (issued 2007)

A11. Amend the following paragraph in GRAP 19:

**.12 Where another Standard of GRAP deals with a specific type of provision, contingent liability or contingent asset, an entity applies that Standard instead of this Standard. For example, the Standard of GRAP on *Entity Combinations* addresses the treatment by an acquirer of contingent liabilities assumed in a business combination. Similarly, certain types of provisions are also addressed in Standards of GRAP on: .....**

The Standard of GRAP on *Revenue from Non-exchange Transactions (Taxes and Transfers)* (issued 2008)

A12. Amend the following paragraphs in GRAP 23:

**.01 The objective of this Standard is to prescribe requirements for the financial reporting of revenue arising from non-exchange transactions, other than non-exchange transactions that involves a transfer of functions between entities under common control or a merger an entity-combination. The Standard deals with issues that need to be considered in recognising and measuring revenue from non-exchange transactions, including the identification of contributions from owners.**

**.02 An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for revenue from non-exchange transactions. This Standard does not apply to a transfer of functions between entities under common**

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~~Standards of GRAP on Financial Instruments indicates that the investment may be impaired.~~

40A In determining the value in use of a cash-generating investment, an entity estimates:

- (a) its share of the present value of the estimated future cash flows expected to be generated by the associate, including the cash flows from the operations of the associate and the proceeds from the ultimate disposal of the investment; or
- (b) the present value of the estimated future cash flows expected to arise from dividends to be received from the investment and from its ultimate disposal.

Under appropriate assumptions, both methods give the same result. Any resulting impairment loss for the investment is allocated in accordance with the Standards of GRAP on *Impairment of Non-cash-generating Assets and Impairment of Cash-generating Assets*. Therefore, it is allocated first to any remaining goodwill (see paragraph 30).

#### The Standard of GRAP on Employee Benefits (issued 2009)

A15. Amend the following paragraph in GRAP 25:

- .02 ~~This Standard shall be applied by an employer in accounting for all employee benefits, except share based payment transactions (see the International Financial Reporting Standard on Share-based Payment), and to the initial recognition and initial measurement of assets and liabilities acquired in a transfer of functions between entities under common control (see the Standard of GRAP on Transfer of Functions Between Entities Under Common Control) or a merger (see the Standard of GRAP on Mergers).~~

#### The Standard of GRAP on Impairment of Cash-generating Assets (issued 2009)

A16. Add the following paragraphs after paragraph .08:

- .08A A transferor that holds a cash-generating asset or a cash-generating unit that are to be relinquished in a transfer of functions between entities under common control (see the Standard of GRAP on *Transfer of Functions Between Entities Under Common Control*), and combining entities that holds a cash-generating asset or a cash-generating unit that are to be transferred in a merger (see the Standard of GRAP on *Mergers*), shall apply the principles in this Standard until the transfer or merger date.

A17. Delete the following paragraph in GRAP 26:

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~~control or a merger or an entity combination that is a non-exchange transaction (see the Standards of GRAP on Transfer of Functions Between Entities Under Common Control or Mergers).~~

.04 Governments may reorganise the public sector, merging some entities and dividing other entities into two or more separate entities. An entity combination occurs when two or more reporting entities are brought together to form one entity. These restructurings do not ordinarily involve one entity purchasing another entity, but may result in a new or existing entity acquiring all the assets and liabilities of another entity. The Board has not yet addressed entity combinations and has excluded them from the scope of this Standard. Therefore, this Standard does not specify whether an entity combination, which is a non-exchange transaction, will give rise to revenue or not.

#### The Standard of GRAP on Impairment of Non-cash-generating Assets (issued 2009)

A13. Add the following paragraphs after paragraph .08:

- .08A A transferor that holds a non-cash-generating asset or a group of non-cash-generating assets that are to be relinquished in a transfer of functions between entities under common control (see the Standard of GRAP on *Transfer of Functions Between Entities Under Common Control*), and combining entities that holds a non-cash-generating asset or a group of non-cash-generating assets that are to be transferred in a merger (see the Standard of GRAP on *Mergers*), shall apply the principles in this Standard until the transfer or merger date.

A14. Amend the following consequential amendments in GRAP 21:

#### The Standard of GRAP on Investments in Associates

D3. Paragraphs 40 and 41 are to be amended as follows:

- .04 .40 Because goodwill that forms part of the carrying amount of an investment in an associate is not separately recognised, it is not tested for impairment separately by applying the requirements for impairment testing goodwill in the Standards of GRAP on *Impairment of Cash-generating Assets and Impairment of Non-cash-generating Assets*. Instead the entire carrying amount of the investment is tested under for impairment in accordance with the Standards of GRAP on *Impairment of Cash-generating Assets or Impairment of Non-cash-generating Assets as a single amount*, by comparing its recoverable amount or recoverable service amount (higher of value in use and fair value less costs to sell) with its carrying amount, whenever application of the requirements in the

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units and testing cash-generating units with goodwill for impairment. ~~The Standard of GRAP on Transfer of Functions Between Entities Not Under Common Control requires that the difference between the assets acquired and liabilities assumed and the consideration transferred (if any) as of the acquisition date in surplus or deficit. As no goodwill is recognised in the statement of financial position, the principles of the impairment of goodwill is not applicable.~~

~~The IPSASB has, however, not yet issued an IPSAS dealing with entity combinations and considers it likely that a number of public sector specific issues will arise when combinations of public sector entities take place. As a result, the IPSASB concluded in the basis for conclusions to IPSAS 26 that impairment of goodwill should be scoped out from IPSAS 26.~~

~~BC12. The Board, however, agrees with the scope inclusion of impairment of goodwill as in IAS 36. The inclusion of goodwill in this Standard is consistent with the requirements in other Standards of GRAP already approved by the Board. The scope exclusion for the impairment of goodwill is therefore included in this Standard~~

~~BC13. However, in the absence of a Standard of GRAP on Entity Combinations, reference should be made to the International Accounting Standard on Impairment of Assets (IAS 36) for guidance on the impairment of goodwill, and the disclosure requirements related to that.~~

A20. Amend the following in the comparison with IPSAS 26:  
**Comparison with the International Public Sector Accounting Standard on Impairment of Cash-Generating Assets (January 2008)**

- ~~Goodwill has been included in the scope of this Standard. IPSAS 26 excludes goodwill from its scope.~~

**The Standard of GRAP on Discontinued Operations (issued 2006)**

A21. Add the following paragraph in GRAP 100:  
02A The disclosure requirements of this Standard do not apply to the combining entities in a merger.

**The Standard of GRAP on Agriculture (issued 2006)**

A22. Amend the following paragraphs in GRAP 101:  
04 This Standard does not apply to:  
.....

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~~09. For guidance on the impairment of goodwill and the disclosure requirements related thereto, reference should be made to the International Accounting Standard on Impairment of Assets:~~

A18. Amend the following consequential amendments in GRAP 26:

**The Standard of GRAP on Investments in Associates**

D3. Paragraphs 40 and 41 are to be amended as follows:

~~.01 40 Because goodwill that forms part of the carrying amount of an investment in an associate is not separately recognised, it is not tested for impairment separately by applying the requirements for impairment testing goodwill in the Standards of GRAP on Impairment of Cash-generating Assets and Impairment of Non-cash-generating Assets. Instead the entire carrying amount of the investment is tested under for impairment in accordance with the Standards of GRAP on Impairment of Cash-generating Assets or Impairment of Non-cash-generating Assets as a single amount by comparing its recoverable amount or recoverable service amount (higher of value in use and fair value less costs to sell) with its carrying amount, whenever application of the requirements in the Standards of GRAP on Financial Instruments indicates that the investment may be impaired.~~

.40A In determining the value in use of a cash-generating the investment, an entity estimates:

- .02 (a) its share of the present value of the estimated future cash flows expected to be generated by the associate, including the cash flows from the operations of the associate and the proceeds from the ultimate disposal of the investment; or
- .03 (b) the present value of the estimated future cash flows expected to arise from dividends to be received from the investment and from its ultimate disposal.

Under appropriate assumptions, both methods give the same result. Any resulting impairment loss for the investment is allocated in accordance with the Standards of GRAP on Impairment of Non-cash-generating Assets and Impairment of Cash-generating Assets. Therefore, it is allocated first to any remaining goodwill (see paragraph 30).

A19. Amend the following paragraphs in the Basis for Conclusions:

**Inclusion of g Treatment of goodwill**

BC11. IAS 36 contains extensive requirements and guidance on the impairment of goodwill, the allocation of goodwill to cash-generating

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- (d) the initial recognition and initial measurement of agricultural activity acquired in a transfer of functions between entities under common control (see the Standard of GRAP on *Transfer of Functions Between Entities Under Common Control*) or a merger (see the Standard of GRAP on *Mergers*).

.48 An entity shall present a reconciliation of changes in the carrying amount of biological assets between the beginning and the end of the current period. The reconciliation shall include:

- (e) decreases due to harvest;
- (eA) decreases as a result of a transfer of functions between entities under common control or a merger;
- (f) increases resulting from a transfer of functions between entities under common control, a transfer of functions between entities not under common control or a merger entity combinations;

The Standard of GRAP on *Intangible Assets* (issued 2006)

A23. Amend the following paragraphs in GRAP 102:

.03 This Standard shall be applied in accounting for intangible assets, except:

- (d) the initial recognition and initial measurement of intangible assets acquired in a transfer of functions between entities under common control (see the Standard of GRAP on *Transfer of Functions Between Entities Under Common Control*) or a merger (see the Standard of GRAP on *Mergers*).

.04 Where the accounting for a specific type of intangible asset is prescribed by another Standard of GRAP, an entity applies that Standard of GRAP. For example, this Standard does not apply to:

- (f) goodwill acquired in an entity combination (see the Standard of GRAP on *Entity Combinations*);
- (g) in-process research and development projects acquired through an entity combination (see the Standard of GRAP on *Entity Combinations*);

.121 An entity shall disclose the following for each class of intangible assets, distinguishing between internally generated intangible assets and other intangible assets:

.....

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(e) A reconciliation of the carrying amount at the beginning and end of the period showing:

- (iA) acquisitions through a transfer of functions between entities under common control, a transfer of functions between entities not under common control or a merger;

Comparison with the International Accounting Standard on *Intangible Assets* (June 2004)

The Standard of GRAP on *Intangible Assets* is drawn primarily from the International Accounting Standard on *Intangible Assets* (IAS 38). The main differences between the Standard of GRAP on *Intangible Assets* and the IAS on *Intangible Assets* are as follows:

- The Standard excludes guidance in this Standard on accounting for intangible assets acquired as part of a transfer of functions an entity combination and in-process research and development costs acquired in a transfer of functions an entity combination is different that in IAS 38 as the Standard of GRAP on *Transfer of Functions Between Entities Not Under Common Control* excluded certain exceptions to the recognition and/or measurement principles from the equivalent IFRS, as the Board has not yet considered the applicability of entity combinations to the South African public sector.
- Guidance on the treatment of goodwill in this Standard has been aligned with the requirements in the Standard of GRAP on *Transfer of Functions Between Entities Not Under Common Control*.
- The disclosure requirements in IAS 38 that require the disclosure of increases resulting from entity combinations have been deleted from this Standard, as the Board has not yet considered the applicability of entity combinations to the South African public sector.

A24. The following paragraph is to be inserted in GRAP 102:

**Acquisition as part of a transfer of functions**

39A In accordance with the Standard of GRAP on *Transfer of Functions Between Entities Not Under Common Control*, if an intangible asset is acquired in a transfer of functions, the cost of that intangible asset is its fair value at the acquisition date. The fair value of the intangible asset will reflect expectations about the probability that the expected future economic benefits or service potential embodied in the asset will flow to the entity. In other words, the entity expects there to be an inflow of economic benefits or service potential, even if there is uncertainty about the timing or the amount of the inflow. Therefore, the probability recognition criterion in paragraph .24(a) is always considered to be satisfied for intangible asset acquired in a transfer of functions, if an asset acquired in a transfer of functions is

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separable or arises from contractual rights (including rights arising from binding arrangements) or other legal rights (excluding rights granted by statute), sufficient information exists to measure reliably the fair value of the asset. Thus, the reliable measurement criterion in paragraph 24(b) is always considered to be satisfied for intangible assets acquired in a transfer of functions.

**The Standard of GRAP on Heritage Assets (issued 2008)**

A25. Amend the following paragraphs in GRAP 103:

**.02** *An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in the recognition, measurement and disclosure of all assets that meet the definition of a heritage asset, except the initial recognition and initial measurement of heritage assets acquired in a transfer of functions between entities under common control (see the Standard of GRAP on Transfer of Functions Between Entities Under Common Control) or a merger (see the Standard of GRAP on Mergers).*

**.83** *The financial statements shall disclose, for each class of heritage assets recognised in the financial statements:*

.....

(c) *a reconciliation of the carrying amount at the beginning and end of the period showing:*

(iii) *acquisitions through a transfer of functions between entities under common control, a transfer of functions between entities not under common control or a merger entity combinations,*

**The Standard of GRAP on Financial Instruments (issued 2009)**

A26. Amend the following paragraphs in GRAP 104:

**.02** *An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for financial instruments except:*

....

(c) *the initial recognition and initial measurement of financial instruments acquired in a transfer of functions between entities under common control (see the Standard of GRAP on Transfer of Functions Between Entities Under Common Control) or a merger (see the Standard of GRAP on Mergers).*

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undertaken between entities not under common control by way of an exchange and non-exchange transaction; and

- The Standard of GRAP on *Transfer of Functions Between Entities Under Common Control* to include in its scope a transaction or event undertaken between entities under common control.

BC5. Some respondents to the exposure draft also requested that the same approach should be applied in accounting for all transactions or events that involve a transfer of functions within government. However, the Board concluded that in a transfer of functions undertaken between entities under common control there will be no effect on the consolidated financial statements, whereas a transfer of functions undertaken between entities not under common control will have an effect on the consolidated financial statements. The Board reconfirmed its view that two separate Standards should be developed for transactions or events undertaken between entities under common control, and those undertaken between entities not under common control.

BC6. The Discussion Paper also proposed accounting principles for a transaction or event where an acquirer cannot be identified, and as a result, one entity is not deemed to gain control over another entity. Respondents therefore supported the development of a separate Standard of GRAP on *Mergers*.

### Common control

BC7. The government of the Republic of South Africa is divided into three different spheres, i.e. national, provincial and local, each given independence from the decision-making of another sphere. Control for accounting purposes is defined in the Standard of GRAP on *Consolidated and Separate Financial Statements* as: "The power to govern the financing and operating policies of an entity so as to obtain benefit from its activities". The key consideration in determining whether or not control exists for accounting purposes is that an entity must be able to demonstrate both that it has certain decision-making capabilities over another, and that it benefits from the activities of that entity.

BC8. The national government is responsible for setting the overall policies and objectives for all three spheres of government in line with the prescripts of the Constitution. Each sphere of government is in turn responsible for executing its assigned functions in line with the overall policies and objectives set by national government. In effect, national government benefits from the activities undertaken by the various spheres of government, as these contribute to it achieving its overall policies and objectives.

BC9. However, each sphere is autonomous from national government in executing those policies and objectives, i.e. each sphere of government can decide how it will achieve those objectives both operationally and financially. The fact that

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### Basis for conclusions

*This basis for conclusions accompanies, but is not part of the proposed Standard of GRAP.*

BC1. This basis for conclusions summarises the Board's considerations in developing the proposed Standard of GRAP on *Transfer of Functions Between Entities Not Under Common Control*. In forming its views, the Board considered the views expressed and the comment received from stakeholders that responded to the Invitation to Comment (ITC) of a Discussion Paper on *Transfer of Functions* issued in November 2007.

BC2. A project on the accounting for entity combinations arising from exchange transactions is included on the International Public Sector Accounting Standards Board's (IPSASB) work programme. The Board will continue to monitor this project and, at an appropriate time, consider the implications of the IPSASB project on the Standard of GRAP on *Transfer of Functions Between Entities Not Under Common Control*. The Board further considered the responses to an Invitation to Comment on an exposure draft of the Standard of GRAP on *Transfer of Functions Between Entities Not Under Common Control* (issued July 2010).

### Background

BC3. In the Discussion Paper, the Board proposed that a GRAP equivalent of IFRS 3 dealing with entity combinations should be issued and that entity combinations arising from exchange transactions undertaken between entities not under common control also be included in the scope of the project. It was also proposed that a Standard of GRAP should be developed to deal with transfer of functions undertaken between entities that are:

- under common control, whether by way of an exchange and a non-exchange transaction; and
- not under common control by way of a non-exchange transaction.

BC4. Following proposals from respondents to the Discussion Paper to include a transaction or event undertaken between entities not under common control by way of a non-exchange transaction in the scope of the IFRS 3 equivalent GRAP Standard, the Board agreed to the development of the following Standards of GRAP:

- The Standard of GRAP on *Transfer of Functions Between Entities Not Under Common Control* to include in its scope a transaction or event

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national government provides funding for these operations and may regulate the operating environment does not necessarily imply control for financial reporting purposes. Entities within one sphere of government are thus independent from entities in another sphere.

BC10. In South Africa, this is further applied through the requirement in section 8 and 19 of the Public Finance Management Act, Act No. 1 of 1999, as amended (PFMA) that requires the preparation of consolidated financial statements on a national and provincial level. The entities included in such consolidations may, from an accounting perspective, not necessarily be required to prepare such consolidated financial statements. Similarly, section 122 of the Municipal Finance Management Act, Act No. 56 of 2003 (MFMA) requires the preparation of consolidated financial statements from a municipal perspective.

BC11. In rare circumstances, for example, through national legislation, an entity in one sphere of government may intervene in the administration of an entity in another sphere of government, if that other entity cannot and does not fulfil its executive obligation. For example, an entity in the national sphere of government may intervene in the administration of a municipality if that municipality is unable to fulfil its constitutional or legislative mandate. These interventions mean that executive decisions are taken on behalf of the other entity until it is able to fulfil its legislative obligations. Such interventions are usually only temporary in nature. However, during this period, circumstances must be evaluated to establish whether or not the intervention meets the definition of control.

## Scope

*Transfer of individual assets or groups of assets and/or liabilities (paragraphs .03(a) and .06)*

BC12. Arrangements that require one entity to take over an asset or a group of assets, or a liability or a group of liabilities of another entity are outside the scope of this Standard, as these arrangements are merely the acquisition of an asset or a group of assets, or the assumption of a liability or a group of liabilities.

*Mergers (paragraph .03(c) and .07)*

BC13. A merger involves the creation of a new combined entity in which none of the former entities obtains control over any other and no acquirer can be identified. Determining whether an acquirer can be identified includes a consideration of, amongst other things, which of the combining entities initiated the transaction or event, the relative size of the combining entities, as well as whether the assets or revenue of one of the entities involved in the transaction or event significantly exceed those of the other entities. The combining entities rather came together for the mutual sharing of risks and benefits of the combined entity. The Discussion Paper considered various alternatives to account for a transaction or

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event that meets the definition of merger. In considering IFRS 3, the Board agreed that the acquisition method will not be appropriate to account for a transaction or event that meets the definition of merger. The acquisition method requires the identification of an acquirer that obtains control of an acquiree in a transaction or event that meets the definition of a business combination, as defined in IFRS 3. In a merger an acquirer is not identified. A merger involves the establishment of a new reporting entity, formed from combining entities that come together for the mutual sharing of risks and benefits. A merger does thus not result in one entity obtaining control over another. While entities in a transfer of functions obtain control over another entity, mergers do not involve control. The Standard of GRAP on *Mergers* should be applied in accounting for a merger.

*A transaction or event undertaken between entities not under common control (paragraphs .02 and .08)*

BC14. A transaction or event in which an acquirer can be identified and that results in a transfer of functions between entities in different spheres of government, and/or between entities that are not part of the same economic entity, falls within the scope of this Standard as the transaction or event is undertaken between entities not under common control. The entities involved in the transfer of functions are not ultimately controlled by the same entity before and after the transfer of functions. If the function is transferred to a newly established entity that did not exist prior to the acquisition date, the transfer will also fall within the scope of this Standard if the newly established entity is identified as the acquirer and the newly established entity and the acquiree do not form part of the same economic entity subsequent to the transfer of functions.

*A transaction or event undertaken between entities under common control (paragraphs .03(b), .and .09)*

BC15. A transaction or event in which an acquirer can be identified and that results in a transfer of functions between entities in the same sphere of government, and/or between entities that forms part of the consolidated financial statements, will fall outside the scope of this Standard as the transaction or event is undertaken between entities under common control.

## Identifying the acquirer

BC16. IFRS 3 concludes that a new entity formed to effect a business combination is not necessarily the acquirer. If a new entity is formed to exchange equity interests to effect a business combination, one of the combining entities that existed before the business combination shall be identified as the acquirer. In contrast, a new entity that transfers cash or other assets or incurs liabilities as consideration may be the acquirer.

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requires that the excess should be recognised in surplus and deficit on acquisition date.

#### Measurement period

BC22. The Standard provides the acquirer with a reasonable period after the transfer date, a measurement period, during which to obtain the information necessary to identify and measure the assets acquired and liabilities assumed in a transfer of functions. The Board agreed to a measurement period of two years.

#### Effective settlement of a pre-existing relationship between the acquirer and acquiree in a transfer of functions

BC23. The settlement of a pre-existing relationship between the acquirer and the acquiree is not part of the transfer of functions as these transactions were entered into, by, or on behalf of the acquirer or primarily for the benefit of the acquirer rather than primarily for the benefit of the acquiree before a transfer of functions. Such transactions should be accounted for in terms of the applicable Standards of GRAP.

BC24. As these transactions were entered into in an arm's length, the acquirer should measure the gain or loss when settling the pre-existing relationship, at its fair value.

#### Bargain purchases

BC25. IFRS 3 establishes principles and requirements for the accounting of bargain purchases, i.e. a business combination where the fair value of the assets acquired and liabilities assumed exceeds the consideration transferred to the acquiree. IFRS 3 requires that any such gain shall be recognised in surplus or deficit on acquisition date.

BC26. In its decision to develop a Standard of GRAP on *Transfer of Functions Between Entities Not Under Common Control* undertaken by way of an exchange and non-exchange transaction, the Board acknowledged that the initial recognition and measurement principles of transfer of functions between entities not under common control undertaken by way of a non-exchange transaction, should be similar to those of business combinations that falls within the scope of IFRS 3. The bargain purchase principles, as included in IFRS 3, should therefore be applied to a transfer of function between entities not under common control undertaken by way of a non-exchange transaction. Any difference between the fair value of the assets acquired and liabilities assumed, and the consideration transferred (if any) to the acquiree should be recognised in surplus or deficit on the acquisition date. The principle for the treatment of the any excess of the fair value of the assets acquired and liabilities assumed in a

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BC17. The Board concluded that this is not likely to occur for a transfer of functions that involves the acquisition of another entity or a transfer of assets and liabilities undertaken between entities not under common control in the public sector. The guidance was therefore excluded from this Standard.

#### Recognition and measuring the difference between identifiable assets acquired and liabilities assumed, and the consideration transferred (if any)

BC18. IFRS 3 requires the recognition and measurement of goodwill, i.e. any excess of the purchase consideration paid over the fair value of the assets acquired and liabilities assumed. Goodwill is recognised as an asset and is subject to an annual impairment test.

BC19. For an item to meet the definition of an asset in the *Framework for the Preparation and Presentation of Financial Statements* (the Framework), future economic benefits or service potential should be obtainable from that item. In applying that principle to any excess of the purchase consideration paid over the fair value of the assets acquired and liabilities assumed, the Board noted that the acquirer should be able to demonstrate that the projected future results of operations of the acquired entity would be sufficient to recover the purchase premium over its amortisation period. The acquiree should be able to provide supportive evidence on projected future results through, for example a realistic and specific business plan. As public sector entities are not focused on generating a commercial return, and because the excess is likely to have been paid for policy reasons, the Board further argued that it will be more appropriate to recognise the excess as an expense. The Board further noted that in determining the fair value of the assets acquired and liabilities assumed, the assets' or liabilities' future economic benefits or service potential will be reflected in the value determined on acquisition date.

BC20. Based on the above arguments, the Board concluded that, because the excess of the purchase consideration paid (if any) over the fair value of the assets acquired and liabilities assumed can be seen as a premium that is paid by the acquirer to the previous owners, and because the definition of an asset or liability in terms of the Framework has not been met to support the recognition of goodwill, the excess should be recognised in surplus and deficit on acquisition date. The entity should however recognise and measure all assets acquired and liabilities assumed, subject to it meeting the definition of an asset and liability in the Framework and the recognition criteria in the applicable Standards of GRAP before recognising the excess in the statement of financial performance.

BC21. Respondents to the exposure draft supported this proposal, and the Standard of GRAP on *Transfer of Functions Between Entities Not Under Common Control*

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non-exchange transaction, is similar to that in an exchange transaction (see BC 18 and 19). This proposal was supported by respondents to the exposure draft.

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### Comparison with the International Financial Reporting Standard on *Business Combinations* (2008)

The Standard of GRAP on *Transfer of Functions Between Entities Not Under Common Control* (ED GRAP 77) is drawn primarily from the International Financial Reporting Standard on *Business Combinations* (IFRS 3). The main differences between this Standard and IFRS 3 are as follows:

- The heading and related text of the Standard has been amended from "business combinations" to "transfer of functions between entities not under common control" to reflect public sector circumstances.
- The objective paragraph in this Standard has been simplified and aligned with that of other Standards of GRAP.
- The scope of the Standard has been expanded to exclude other public sector specific transactions. A diagram has been included to assist entities in determining whether this Standard should be applied in accounting for a transaction or event that involves a transfer of functions or merger.
- Guidance on the concept of common control has been included in this Standard to clarify the application of this Standard in the public sector.
- Additional explanatory guidance on the concept of residual interest from GRAP 104 *Financial Instruments* has been included in this Standard.
- The term "service potential" has been used in this Standard as public entities' activities give rise to both economic benefits and service potential.
- Public sector definitions and explanatory guidance from other Standards of GRAP have been included in this Standard where they are relevant to the understanding of this Standard.
- Any related application guidance that is included as an appendix to IFRS 3, has been included as part of the text of the Standard, where appropriate.
- Additional explanatory guidance on identifying an acquirer and in determining the acquisition date has been included in the Standard.
- An example has been included to clarify the acquisition date from a public sector perspective.
- Certain exceptions to the recognition and/or principles have been excluded from this Standard. The Standard requires that all identifiable assets and liabilities that meet the definition in the *Framework for the Preparation and Presentation of Financial Statements* and the recognition criteria in the applicable Standard of GRAP are recognised in the transfer of functions.
- The treatment of goodwill is dealt with differently in this Standard. This Standard requires that the excess of the purchase consideration paid (if any) over the fair

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value of the assets acquired and liabilities assumed, should be recognised in surplus and deficit.

- As this Standard includes in its scope transactions or events undertaken in terms of an exchange and non-exchange transaction, the related text in this Standard has been expanded to incorporate this concept.
- The measurement period in IFRS 3 that allows the acquirer additional time to recognise assets acquired and liabilities assumed in a business combinations, has been extended to two years due to practical considerations.
- Only factors assisting the acquirer to determine whether a transaction is part of the transfer of functions or whether the transaction is separate from the transfer of functions that are relevant to the public sector, have been included in this Standard.
- The appendix on the illustrative examples in IFRS 3 has not been included in this Standard, as most of the examples address circumstances that are not applicable to this Standard.
- The transitional provisions to this Standard of GRAP are dealt with differently that in IFRS 3.



**SCHEDULE 4**  
**GRAP 107 – MERGERS**



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## ACCOUNTING STANDARDS BOARD

### STANDARD OF GENERALLY RECOGNISED ACCOUNTING PRACTICE

#### MERGERS

(GRAP 107)

#### Acknowledgement

In developing the Standard of Generally Recognised Accounting Practice (GRAP) on *Mergers* reference was made to the International Financial Reporting Standard (IFRS) on *Business Combinations* issued by the International Accounting Standards Board (IASB). The IASB has issued a comprehensive body of International Financial Reporting Standards (IFRSs). Extracts of the IFRS on *Business Combinations* are reproduced in this Standard of GRAP with the permission of the IASB.

The approved text of IFRSs is that published by the IASB in the English language and copies may be obtained from:

IFRS Foundation Publications Department

30 Cannon Street

London EC4M 6XH

United Kingdom

Internet: <http://www.ifrs.org>

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The Board has approved the application of International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board to be GRAP for these entities where they are applying IFRSs.

Financial statements should be described as complying with Standards of GRAP only if they comply with all the requirements of each applicable Standard of GRAP and any related Interpretations of the Standards of GRAP.

Any limitation of the applicability of specific Standards or Interpretations is made clear in those Standards or Interpretations of the Standards of GRAP.

The Standard of GRAP on *Mergers* is set out in paragraphs .01 to .51. All paragraphs in the Standards of GRAP have equal authority. The status and authority of appendices are dealt with in the preamble to each appendix. The Standards should be read in the context of its objective, its basis for conclusions if applicable, the *Preface to Standards of GRAP*, the *Preface to the Interpretations of the Standards of GRAP* and the *Framework for the Preparation and Presentation of Financial Statements*.

Standards of GRAP and Interpretations of the Standards of GRAP should also be read in conjunction with any directives issued by the Board prescribing transitional provisions, as well as any regulations issued by the Minister of Finance regarding the effective dates of the Standards of GRAP, published in the Government Gazette.

Reference may be made here to a Standard of GRAP that has not been issued at the time of issue of this Standard. This is done to avoid having to change the Standards already issued when a later Standard is subsequently issued. Paragraph .11 of the Standard of GRAP on *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

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**MERGERS****Introduction**

This Standard of GRAP was originally issued by the Accounting Standards Board (the Board) in November 2010. Since then, it has been amended as follows:

- To clarify principles relating to the initial recognition and measurement by the combined entity.
- With consequential amendments following the revisions to GRAP 100 *Discontinued Operations* in 2013.

**Standards of Generally Recognised Accounting Practice (GRAP)**

The Accounting Standards Board (the Board) is required in terms of the Public Finance Management Act, Act No. 1 of 1999, as amended (PFMA), to determine generally recognised accounting practice referred to as Standards of Generally Recognised Accounting Practice (GRAP).

The Board must determine GRAP for:

- (a) departments (including national and provincial and government components);
- (b) public entities;
- (c) trading entities (as defined in the PFMA);
- (d) constitutional institutions;
- (e) municipalities and boards, commissions, companies, corporations, funds or other entities under the ownership control of a municipality; and
- (f) Parliament and the provincial legislatures.

The above are collectively referred to as "entities" in Standards of GRAP.

The Board has approved the application of Statements of Generally Accepted Accounting Practice (GAAP), as codified by the Accounting Practices Board and issued by the South African Institute of Chartered Accountants as at 1 April 2012, to be GRAP for:

- (a) government business enterprises (as defined in the PFMA);
- (b) any other entity, other than a municipality, whose ordinary shares, potential ordinary shares or debt are publicly tradable on the capital markets; and
- (c) entities under the ownership control of any of these entities.

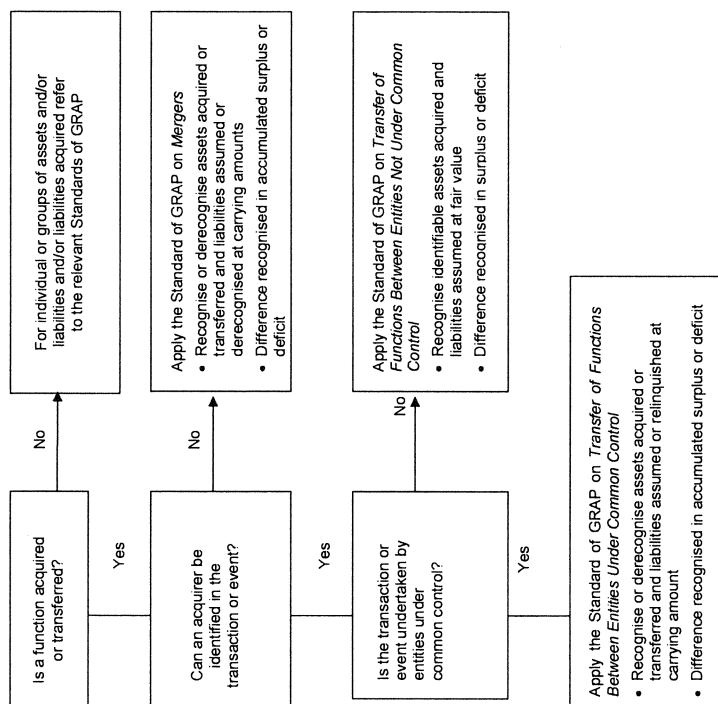
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involves a transfer of functions or merger:



**Definitions**

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



**Objective**

.01 The objective of this Standard is to establish accounting principles for the combined entity and combining entities in a merger.

**Scope**

.02 A combined entity and combining entities that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard to a transaction or event that meets the definition of a merger where no acquirer can be identified.

.03 This Standard does not apply to:

- (a) a transfer of functions between entities under common control (see the Standard of GRAP on Transfer of Functions Between Entities Under Common Control); and
- (b) a transfer of functions between entities not under common control (see the Standard of GRAP on Transfer of Functions Between Entities Not Under Common Control).

.04 A transaction or event for which no acquirer can be identified falls within the scope of this Standard. A merger is the establishment of a new combined entity in which none of the former entities obtains control over any other and no acquirer can be identified. Determining whether an acquirer can be identified includes a consideration of, amongst other things, which of the combining entities initiated the transaction or event, the relative size of the combining entities, as well as whether the assets or revenue of one of the entities involved in the transaction or event significantly exceed those of the other entities. A merger can either involve the combination of two or more entities in which one of the combining entities continues to become the new reporting entity, or a new reporting entity is established from the combining entities. The concept of control and a function is not relevant in a transaction or event that meets the definition of a merger. A transaction or event in which an acquirer can be identified and that involves control should be accounted for in terms of the Standards of GRAP on Transfer of Functions Between Entities Under Common Control or Transfer of Functions Between Entities Not Under Common Control.

.05 Entities should consider the following diagram in determining whether this Standard should be applied in accounting for a transaction or event that



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**Carrying amount of an asset or liability is the amount at which an asset or liability is recognised in the statement of financial position.**

**Combined entity is a new reporting entity formed from the combination of two or more entities.**

**Combining entities (for purposes of this Standard) are the entities that are combined for the mutual sharing of risks and benefits in a merger.**

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

**A merger is the establishment of a new combined entity in which none of the former entities obtain control over any other and no acquirer can be identified.**

**Merger date is the date on which entities are combined for the mutual sharing of risks and benefits and when the assets and liabilities are transferred to the combined entity.**

**A transfer of functions is the reorganisation and/or the re-allocation of functions between entities by transferring functions between entities or into another entity.**

**Terms defined in other Standards of GRAP are used in this Standard with the same meaning as in those other Standards of GRAP.**

## Mergers

.07 A merger is the establishment of a new combined entity in which none of the former entities obtains control over any other and no acquirer can be identified. As no acquirer can be identified, a merger does not result in an entity having or obtaining control over any of the entities that are involved in the transaction or event, as the combining entities are not controlled entities of each other, either before or after the merger.

.08 The following criteria indicate that a transaction or event should be accounted for as a merger:

- (a) No acquirer: No entity in the transaction or event can be identified as the acquirer.
- (b) No control: No party acquires control as no party is seen to be dominant. All parties to the transaction or event combine their relative risks and benefits in the combined entity and maintain or preserve their decision

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making powers.

(c) Representation by management: All parties to the transaction or event, as represented by management, participate in establishing the management structure of the combined entity, and in selecting the management personnel. Such decisions are made on the basis of consensus between the parties to the transaction or event.

(d) Size of entities involved: The relative sizes of the combining entities are not so disparate that one entity dominates the combined entity by virtue of its relative size. As such, the relative size of an entity is not as pervasive as the other two indicators in this paragraph in determining whether an arrangement constitutes a merger.

### Identifying the combined entity and combining entities

.09 For each merger a combined entity and combining entities shall be identified.

.10 The terms and conditions of a merger are set out in a binding arrangement. This arrangement may be evidenced in a number of ways and may encompass a formal written agreement between the entities, legislation passed in parliament or a provincial legislature, cabinet decision, ministerial order, a decision made by municipal councils, regulation or a notice or other official means. The binding arrangement usually sets out which entities are to be combined as a result of the merger, and identifies the new reporting entity after the merger.

.11 A merger involves a transaction or event where no acquirer can be identified. If the binding arrangement governing the terms and conditions of the transaction or event identifies which entity to the transaction or event is the acquirer, and which entity is the transferor or combining entity, the transaction or event should be accounted for in terms of the Standard of GRAP on *Transfer of Functions Between Entities Under Common Control* or the Standard of GRAP on *Transfer of Functions Between Entities Not Under Common Control*.

.12 Determining the acquirer shall include a consideration of, amongst other things, which of the combining entities initiated the transaction or event, the relative size of the combining entities, as well as whether the assets or revenue of one of the entities involved in the transaction or event significantly exceed those of the other entities.

### Determining the merger date

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- .13 **The combined entity and the date on which the new reporting entity obtains control of the assets and liabilities and the combining entities loses control of their assets and liabilities.**

.14 The binding arrangement governing the terms and conditions of a merger may specify that the transaction or event is effective from a specific date. The merger date is the date on which the combining entities transfer the assets and liabilities to the combined entity as identified in the binding arrangement. However, the combined entity may obtain control of the assets and liabilities on a date that is either earlier or later than the date on which the assets and liabilities are transferred by the combining entities, or specified in the binding arrangement. For example, a Regulation passed by the Demarcation Board on 1 April 20X1 requires three municipalities to transfer all their functions into a new metropolitan municipality. A directive is issued stating that the effective date of the transfer is 1 June 20X1. The new metropolitan municipality, however, only obtains control of the assets and liabilities on 1 July 20X1 through a memorandum of understanding. As the new metropolitan municipality can only use or otherwise benefit from the combination in pursuit of its objectives, or exclude or otherwise regulate the access of others to those benefits from 1 July 20X1, the transaction or event should be accounted for as from 1 July 20X1. All relevant facts and circumstances should be considered in identifying the merger date.

- .15 The fact that a binding arrangement exists creates an obligation for either one or all of the parties to act in order to fulfil the terms and conditions of the arrangement. This means that under the binding arrangement, the combined entity has an enforceable claim over the assets and liabilities of the combining entities that are to be combined in terms of the merger. This indicates that the merger is probable and will occur in line with the terms and conditions of the binding arrangement.

### **Assets acquired or transferred and/or liabilities assumed or derecognised**

- .16 **The recognition of assets and liabilities by the combined entity, and the transfer and derecognition of assets and liabilities by the combining entities are subject to the conditions specified in the paragraphs below.**

#### **Criteria for the combined entity and the combining entities**

- .17 The assets and liabilities that qualify for recognition by the combined entity or transfer and derecognition by the combining entities in a merger are normally governed by the terms and conditions of the binding arrangement. Such assets and liabilities must be part of what had been agreed in terms of the

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binding arrangement, rather than the result of separate transactions.

#### **Criteria for the combined entity**

.18 The assets and liabilities as that qualify for recognition as set out in the binding arrangement must meet the definitions of assets and liabilities in the *Framework for the Preparation and Presentation of Financial Statements* and the recognition criteria in the applicable Standards of GRAP at the merger date.

.19 Costs that the combined entity expects but which the entity is not obliged to incur in the future to effect its plan to exit an activity of the combining entities or to terminate the employment of, or relocate the combining entities' employees, shall not be accounted for as part of the liabilities at the merger date. The combined entity shall not recognise those costs as part of a merger. Instead, the combined entity recognises these costs in its financial statements after the merger has occurred, in accordance with the applicable Standards of GRAP.

### **Accounting by the combined entity**

#### **Initial recognition and measurement**

.20 **As of the merger date, the combined entity shall recognise all the assets acquired and liabilities assumed. The assets acquired and liabilities assumed shall be measured at their carrying amounts.**

.21 The carrying amount of an asset acquired or a liability assumed is the amount at which the asset or liability is recognised by the combining entities in their statements of financial position at the merger date.

.22 If, on the merger date, a combining entity did not apply Standards of GRAP, the combined entity should adjust the basis of accounting used for the assets acquired and liabilities assumed to align it to Standards of GRAP prior to the merger.

.23 **The difference between the carrying amounts of the assets acquired and the liabilities assumed and any adjustments required to the basis of accounting as described in paragraph .22, shall be recognised in accumulated surplus or deficit.**

#### **Measurement period**

.24 **If the initial accounting for a merger is incomplete by the end of the reporting period in which the merger occurs, the combined entity shall**

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**report in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, the combined entity shall retrospectively adjust the provisional amounts recognised at the merger date to reflect new information obtained about facts and circumstances that existed as of the merger date and, if known, would have affected the measurement of the amounts recognised as of that date. The measurement period ends as soon as the combined entity receives the information it was seeking about facts and circumstances that existed as of the merger date or learns that more information is not obtainable. However, the measurement period shall not exceed two years from the merger date.**

.25 The measurement period is the period after the merger date during which the combined entity may adjust the provisional amounts recognised for a merger. The measurement period provides the combined entity with reasonable time to obtain the information necessary to identify and measure the following as of the merger date in accordance with the requirements of this Standard:

- (a) the assets acquired and liabilities assumed;
- (b) the consideration transferred, if any, for the combining entities; and
- (c) the resulting excess of the purchase consideration paid (if any) over the assets acquired and liabilities assumed.

.26 The combined entity shall consider all relevant factors in determining whether information obtained after the merger date should result in an adjustment to the provisional amounts recognised or whether that information results from events that occurred after the merger date. Relevant factors include the date when additional information is obtained and whether the combined entity can identify a reason for a change to provisional amounts. Information that is obtained shortly after the merger date is more likely to reflect circumstances that existed at the merger date than is information obtained several months later.

.27 The combined entity recognises an increase (decrease) in the provisional amount recognised for an asset (liability) by means of decreasing (increasing) the excess of the purchase consideration paid (if any) over the carrying amount of the assets acquired and liabilities assumed previously recognised in accumulated surplus or deficit. However, new information obtained during the measurement period may sometimes result in an adjustment to the provisional amount of more than one asset or liability. For example, the combined entity might have assumed a liability to pay damages related to an accident in one of the combining entity's facilities, part or all of which are covered by the combining entity's liability insurance policy. If the combined entity obtains new information during the measurement period about the merger date carrying amounts of that liability, the adjustment to the excess resulting from a change

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to the provisional amount recognised for the liability would be offset (in whole or in part) by a corresponding adjustment to the previously recognised excess in accumulated surplus or deficit resulting from a change to the provisional amount recognised for the claim receivable from the insurer.

.28 During the measurement period, the combined entity shall recognise adjustments to the provisional amounts as if the accounting for the merger had been completed at the merger date. Thus, the combined entity shall revise comparative information for prior periods presented in financial statements as needed, including making any change in depreciation, amortisation or other income effects recognised in completing the initial accounting.

.29 After the measurement period ends, the combined entity shall revise the accounting for a merger only to correct an error in accordance with the Standard of GRAP on *Accounting Policies, Changes in Accounting Estimates and Errors*.

**Expenditure incurred in relation to the merger**

.30 Expenditures incurred in relation to the merger are costs that the combined entity incurs to effect the merger. These costs include advisory, legal, accounting and other professional or consulting fees, general administrative costs, costs to furnish information to owners of the combining entities, and salaries and other expenses related to services of employees involved in achieving the merger. It also includes costs or losses incurred in combining the assets and liabilities of the combining entities. The combined entity shall account for such expenditure as expenses in the period in which the costs are incurred.

**Subsequent measurement**

.31 **The combined entity shall subsequently measure any assets acquired and any liabilities assumed in a merger in accordance with the applicable Standards of GRAP.**

.32 **At the merger date, the combined entity shall classify or designate the assets acquired and liabilities assumed as necessary to apply other Standards of GRAP subsequently. The combined entity shall make those classifications or designations on the basis of the terms of the binding arrangement, economic conditions, the operating or accounting policies and other relevant conditions as these exist at the merger date.**

.33 In some situations, the Standards of GRAP provide for different accounting depending on how an entity classifies or designates a particular asset or liability. Examples of classifications or designations that the combined entity

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## Disclosure

- .40 *The combined entity and the combining entities shall disclose information that enables users of its financial statements to evaluate the nature and financial effect of a merger that occurs either:*
- (a) *during the current reporting period; or*
  - (b) *after the end of the reporting period but before the financial statements are authorised for issue.*
- .41 *The combined entity and the combining entities shall disclose the following for a merger that occurred during the reporting period:*
- (a) *the accounting policy adopted for a merger that occurred during the reporting period;*
  - (b) *the name of the entities involved in the merger, a brief description of the merger and the reason for undertaking the transaction or event; and*
  - (c) *the merger date.*

## Combined entity

- .42 *The combined entity need not to present comparative information in the first reporting period.*
- .43 *The combined entity shall disclose the following for a merger that occurred during the reporting period:*
- (a) *for each effected line item in financial statements, the value of the assets acquired and liabilities assumed in a merger;*
  - (b) *the difference between the carrying amounts of the assets acquired and the liabilities assumed and any adjustments required to the basis of accounting as described in paragraph .22, as a separate line item in net assets;*
  - (c) *additional contingent liabilities and contingent assets assumed or acquired in the merger; and*
  - (d) *the period for which the results of the merger are included in the financial statements of the combined entities.*



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shall make on the basis of the relevant conditions as they exist at the merger date, is the categorisation of particular financial assets and liabilities at fair value or amortised cost in accordance with the Standard of GRAP on *Financial Instruments*.

- .34 An exception to the requirement in paragraph .32 to the classification or designation of the assets acquired and liabilities assumed on the merger date, is that the combined entity shall classify the following contracts on the basis of the contractual terms and other factors at the inception of the contract (or, if the terms of the contract have been modified in a manner that would change its classification, at the date of that modification, which might be the merger date):
- (a) classification of a lease contract as either an operating lease or a finance lease in accordance with the Standard of GRAP on *Leases*; and
  - (b) classification of a contract as an insurance contract in accordance with the International Financial Reporting Standard on *Insurance Contracts*.
- .35 *The financial statements of the combined entity shall be prepared using uniform accounting policies for similar transactions and other events or similar circumstances.*
- .36 Since the merger results in a single reporting entity, a single uniform set of accounting policies is adopted by the combined entity. Therefore, the combined entity recognises the assets acquired and the liabilities assumed of the combining entities on the merger date at their existing carrying amounts and subsequently adjust it only as a result of conforming with the combined entity's accounting policies.

## Accounting by the combining entities

### Assets transferred and liabilities de-recognised

- .37 *As of the merger date, the combining entities shall transfer and de-recognise from its financial statements, all the assets and liabilities de-recognised at their carrying amounts.*
- .38 Until the merger date, the combining entities shall continue to measure these assets and liabilities in accordance with applicable Standards of GRAP.
- .39 *The difference between the carrying amounts of the assets transferred and the liabilities de-recognised shall be recognised in accumulated surplus or deficit.*

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*Financial statements for subsequent periods need not to repeat these disclosures.*

- .44** *If the specific disclosures required by this and other Standards of GRAP do not meet the objectives set out in paragraph .43, the combined entity shall disclose whatever additional information is necessary to meet those objectives.*
- .45** *The combined entity shall disclose the following information for each material merger or in the aggregate for individually immaterial mergers that are material collectively if the initial accounting is incomplete (see paragraph .24) for particular assets, liabilities, or any consideration and the amounts recognised in the financial statements for the merger:*
- (a) the reasons why the initial accounting for the merger is incomplete;*
  - (b) the assets, liabilities, or any consideration for which the initial accounting is incomplete; and*
  - (c) the nature and the amount of any measurement period adjustments recognised during the reporting period in accordance with paragraph .28.*

#### **Combining entities**

- .46** *Comparative information shall not be restated or adjusted by the combining entities.*
- .47** *The combining entities shall disclose the following for a merger:*
- (a) for each asset transferred and liability derecognised, the carrying amount of the assets transferred and the liabilities de-recognised; and*
  - (b) the difference between the carrying amounts of the assets transferred and the liabilities derecognised, as a separate line item in accumulated surplus and deficit.*

#### **Transitional provisions**

##### **Initial adoption of the Standards of GRAP**

- .48** *The transitional provisions to be applied by entities on the initial adoption of this Standard are prescribed in a directive(s). The provisions of this Standard should be read in conjunction with each*

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*applicable directive.*

##### **Amendments to Standards of GRAP**

- .49** *Paragraphs .22, .23, and .43 were amended to accommodate implementation requirements that were approved by the Board during February 2013. An entity shall apply these amendments prospectively to a transaction or event that involves a merger when the merger date is on or after the initial adoption of the Standard.*

##### **Effective date**

- .50** *An entity shall apply this Standard of GRAP for annual financial statements covering periods beginning on or after a date to be determined by the Minister of Finance in a regulation to be published in accordance with section 91(1)(b) of the Public Finance Management Act, Act No. 1 of 1999, as amended.*
- .51** *The guidance on the measurement period as included in paragraphs .24 to .29 will only become effective once Directives 2 to 4 that prescribe the transitional provisions for entities on the initial adoption of the Standards of GRAP are withdrawn.*

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- (a) the write-downs of inventories to net realisable value or property, plant and equipment to recoverable amount, as well as the reversals of such write-downs;
- (b) restructurings of the activities of an entity and the reversals of any provisions for the costs of restructuring;
- (c) disposals of items of property, plant and equipment;
- (d) disposals of investments;
- (e) discontinuing operations;
- (f) litigation settlements; and
- (g) other reversals of provisions;
- (h) the difference between the assets acquired and liabilities assumed and the consideration transferred to an acquiree (if any) in a transfer of functions between entities not under common control.

.110 An entity shall present a statement of changes in net assets, showing on the face of the statement:

- (a) the surplus or deficit for the period;
- (b) each item of revenue and expense that, as required by other Standards of GRAP, is recognised directly in net assets, and the total of these items;
- (c) total revenue and expense for the period (calculated as the sum of (a) and (b)), showing separately the total amounts attributable to net assets holders of the controlling entity and to minority interest; and
- (d) for each component of net assets, the effects of changes in accounting policies and the correction of prior period errors recognised in accordance with the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors; and
- (e) for each component of net assets the effect of a transfer of functions and a merger in accordance with the Standards of GRAP on Transfer of Functions Between Entities Under Common Control or Mergers.

Appendix – Illustrative examples  
ENTITY – STATEMENT OF FINANCIAL PERFORMANCE  
(ILLUSTRATING THE CLASSIFICATION OF EXPENSES BY FUNCTION)

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## Appendix – Consequential amendments to other Standards of GRAP

The purpose of the appendix is to identify the consequential amendments to other Standards of GRAP resulting from the issue of the Standard of GRAP on Mergers.

Amended text is shown with new text underlined and deleted text struck through.

### Amendments to the Framework for the Preparation and Presentation of Financial Statements (Framework)

A1. Amend paragraph .38 in the 'Going concern' section of the Framework as follows:

#### Going concern

.38 The financial statements should be prepared on the assumption that an entity is a going concern, and will continue in operation for the foreseeable future. Financial problems of public sector entities are normally resolved by either the ability to raise taxes or some other intervention in order to ensure the services are maintained. Accordingly, a consideration of the going concern involves judgement on whether the entity will continue in its present or some modified form, which may include a merger. Only on rare occasions will the activities cease altogether e.g., when the government discontinues a guarantee of debt and no other intervention is proposed for the entity to continue as a going concern. In those circumstances, the financial statements may have to be prepared on a different basis and, if so, the basis used is disclosed.

### The Standard of GRAP on Presentation of Financial Statements (Issued 2004)

A2. Amend the following paragraphs in GRAP 1:

#### Going concern

.28 Financial statements are normally prepared on the assumption that the entity is a going concern and will continue in operation or some modified form, for example a merger, and meet its statutory obligations for the foreseeable future. In assessing whether the going concern assumption is appropriate, those responsible for the preparation of the financial statements take into account all available information about the future, which is at least, but is not limited to, twelve months from the reporting date.

.99 Circumstances that would give rise to the separate disclosure of items of revenue and expense include:

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	20X2	20X1
<b>Revenue</b>		
Taxes	X	X
Fees, fines, penalties and licences	X	X
Revenue from exchange transactions	X	X
Transfers from other government entities	X	X
<u>Gain attributable to transfer of functions between entities not under common control</u>	X	X
Other operating revenue	X	X
<b>Total revenue</b>	X	X

(/ILLUSTRATING THE CLASSIFICATION OF EXPENSES BY NATURE)  
(in thousands of rands)

	20X2	20X1
<b>Revenue</b>		
Taxes	X	X
Fees, fines, penalties and licences	X	X
Revenue from exchange transactions	X	X
Transfers from other government entities	X	X
<u>Gain attributable to transfer of functions between entities not under common control</u>	X	X
Other operating revenue	X	X
<b>Total revenue</b>	X	X

## ENTITY – STATEMENT OF CHANGES IN NET ASSETS

	Attributable to net assets holders of the controlling entity	Trans- Accumulation reserve	Total
Contributed capital	X	X	X
Trans- Accumulation reserve	(X)	X	X
Minority interest		X	X
<b>Balance at 31 December 20X0</b>			

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	20X2	20X1
<u>Gain or loss from transfer of functions between entities under common control</u>	(X)	(X)
<u>Gain or loss from mergers</u>	(X)	(X)
<b>Balance at 31 December 20X1</b>	X	X
<u>Gain or loss from transfer of functions between entities under common control</u>	(X)	(X)
<u>Gain or loss from mergers</u>	(X)	(X)
<b>Balance at 31 December 20X2</b>	X	X

## The Standard of GRAP on The Effects of Changes in Foreign Exchange Rates (issued 2007)

A3. Amend the following paragraphs in GRAP 4:

- .15 The essential feature of a monetary item is a right to receive (or an obligation to deliver) a fixed or determinable number of units of currency. Examples include: child support grant obligations and other employee benefits to be paid in cash; provisions that are to be settled in cash; and cash dividends or similar distributions that are recognised as a liability. Conversely, the essential feature of a non-monetary item is the absence of a right to receive (or an obligation to deliver) a fixed or determinable number of units of currency. Examples include: amounts prepaid for goods and services (e.g. prepaid rent); goodwill; intangible assets; inventories; property, plant and equipment; and provisions that are to be settled by the delivery of a non-monetary asset.

- .54 ~~The difference between the assets acquired, the liabilities assumed and the consideration transferred (if any) Any goodwill arising on the acquisition of a foreign operation shall be accounted for in terms of the Standard of GRAP on Transfer of Functions Between Entities Not Under Common Control, and Any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of that foreign operation shall be treated as assets and liabilities of the foreign operation. Thus they shall be expressed in the functional currency of the foreign operation and shall be translated at the closing rate in accordance with paragraphs .42 and .46.~~

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**The Standard of GRAP on Financial Reporting in Hyperinflationary Economies (issued 2007)**

- A4. Amend the following paragraphs in GRAP 10:
- .16 Most non-monetary items are carried at cost or cost less depreciation; hence they are expressed at amounts current at their date of acquisition. The restated cost, or cost less depreciation, of each item is determined by applying to its historical cost and accumulated depreciation the change in a general price index from the date of acquisition to the reporting date. Hence, property, plant and equipment, investments carried at cost, inventories of raw materials and merchandise, goodwill, patents, trademarks and similar assets are restated from the dates of their purchase. Inventories of partly-finished and finished goods are restated from the dates on which the costs of purchase and of conversion were incurred.
- .20 To determine whether the restated amount of a non-monetary item has become impaired and should be reduced, an entity applies the Standards of GRAP on Impairment of Assets. Hence, in such cases, restated amounts of property, plant and equipment, goodwill, patents and trademarks are reduced to recoverable amount or recoverable service amount, and restated amounts of inventories are reduced to net realisable value and restated amounts of current investments are reduced to market value.

**The Standard of GRAP on Construction Contracts (issued 2006)**

- A5. Add the following paragraph in GRAP 11:
- .06A This Standard does not apply to the initial recognition and initial measurement of items in a construction contract acquired in a transfer of functions between entities under common control (see the Standard of GRAP on Transfer of Functions Between Entities Under Common Control) or a merger (see the Standard of GRAP on Mergers).

**The Standard of GRAP on Inventories (issued 2004)**

- A6. Amend the following paragraph in GRAP 12:
- .02 An entity which prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for inventories. The Standard applies to all inventories, except:
- .....
- (e) to the initial recognition and initial measurement of inventories acquired in a transfer of functions between entities under

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**common control (see the Standard of GRAP on Transfer of Functions Between Entities Under Common Control) or a merger (see the Standard of GRAP on Mergers).**

**The Standard of GRAP on Leases (issued 2004)**

- A7. Amend the following paragraph in GRAP 13:
- .02 An entity which prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for all leases other than:
- (c) the initial recognition and initial measurement of assets and liabilities in a lease agreement acquired in a transfer of functions between entities under common control (see the Standard of GRAP on Transfer of Functions Between Entities Under Common Control) or a merger (see the Standard of GRAP on Mergers).

**The Standard of GRAP on Investment Property (issued 2004)**

- A8. Amend the following paragraphs in GRAP 16:
- .04 This Standard does not apply to:
- .....
- (c) the initial recognition and initial measurement of investment property acquired in a transfer of functions between entities under common control (see the Standard of GRAP on Transfer of Functions Between Entities Under Common Control) or a merger (see the Standard of GRAP on Mergers).
- .85 In addition to the disclosures required by paragraph .84, an entity that applies the fair value model in paragraphs .41 - .63 shall disclose a reconciliation between the carrying amounts of investment property at the beginning and end of the period, showing the following:
- .....
- (b) additions resulting from acquisitions through a transfer of functions between entities under common control, a transfer of functions between entities not under common control or a merger, ~~business combinations~~,
- .88 In addition to the disclosures required by paragraph .84, an entity that applies the cost model in paragraph .64 shall disclose:
- .....
- (d) a reconciliation of the carrying amount of investment property at the beginning and end of the period, showing the following:

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- (i) *additions, disclosing separately those additions resulting from acquisitions and those resulting from subsequent expenditure recognised as an asset,*
- (ii) *additions resulting from acquisitions through the transfer of functions between entities under common control, a transfer of functions between entities not under common control or a merger, business-combinations,*

The Standard of GRAP on Property, Plant and Equipment (issued 2004)

A9. Amend the following paragraphs in GRAP 17:

- .02 *An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for property, plant and equipment, except:*

.....

- (e) *to the initial recognition and initial measurement of property, plant and equipment acquired in a transfer of functions between entities under common control (see the Standard of GRAP on Transfer of Functions Between Entities Under Common Control) or a merger (see the Standard of GRAP on Mergers).*

- .82 *The financial statements shall disclose, for each class of property, plant and equipment recognised in the financial statements:*

.....

- (e) *a reconciliation of the carrying amount at the beginning and end of the period showing:*

- (i) *additions,*
- (ii) *disposals,*
- (iii) *acquisitions through a transfer of functions between entities under common control, transfer of functions between entities not under common control or a merger business combinations,*

The Standard of GRAP on Segment Reporting (issued 2004)

A10. Amend the following paragraphs in GRAP 18:

- .33 *The consolidated financial statements of an entity may encompass entities acquired in an entity acquisition which gives rise to purchased goodwill (guidance on accounting for the acquisition of an entity is included in the Standard of GRAP on Business Combinations). In these cases, segment assets will include goodwill that is directly attributable to a segment or that*



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~~can be allocated to a segment on a reasonable basis, and segment expense includes related impairment of goodwill.~~

- .36 Standards of GRAP may require adjustments to be made to the carrying amounts of the identifiable assets and liabilities of an entity acquired in an acquisition (see the Standard of GRAP on Business Transfer of Functions Between Entities Not Under Common Control). Measurements of segment assets and liabilities include any adjustments to the prior carrying amounts of the identifiable segment assets and segment liabilities of an entity acquired in a transfer of functions entity-combination accounted for as a purchase, even if those adjustments are made only for the purpose of preparing consolidated financial statements and are not recorded in either the controlling entity's or the controlled entity's separate financial statements. Similarly, if property, plant, and equipment has been revalued subsequent to acquisition in accordance with the revaluation model allowed by the Standard of GRAP on Property, Plant and Equipment, measurements of segment assets reflect those revaluations.

The Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets (issued 2007)

A11. Amend the following paragraph in GRAP 19:

- .12 Where another Standard of GRAP deals with a specific type of provision, contingent liability or contingent asset, an entity applies that Standard instead of this Standard. ~~For example, the Standard of GRAP on Entity Combinations addresses the treatment by an acquirer of contingent liabilities assumed in a business combination. Similarly, certain types of provisions are also addressed in Standards of GRAP on: .....~~

The Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers) (issued 2008)

A12. Amend the following paragraphs in GRAP 23:

- .01 The objective of this Standard is to prescribe requirements for the financial reporting of revenue arising from non-exchange transactions, other than non-exchange transactions that involves a transfer of functions between entities under common control or a merger, an entity-combination. The Standard deals with issues that need to be considered in recognising and measuring revenue from non-exchange transactions, including the identification of contributions from owners.

- .02 *An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for revenue from non-exchange transactions. This Standard does not apply to a transfer of functions between entities under common*

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**control or a merger or an entity combination that is a non-exchange transaction (see the Standards of GRAP on Transfer of Functions Between Entities Under Common Control or Mergers).**

.04 Governments may reorganise the public sector, merging some entities and dividing other entities into two or more separate entities. An entity combination occurs when two or more reporting entities are brought together to form one entity. These restructurings do not ordinarily involve one entity purchasing another entity, but may result in a new or existing entity acquiring all the assets and liabilities of another entity. The Board has not yet addressed entity combinations and has excluded them from the scope of this Standard. Therefore, this Standard does not specify whether an entity combination, which is a non-exchange transaction, will give rise to revenue or not.

**The Standard of GRAP on Impairment of Non-cash-generating Assets (issued 2009)**

A13. Add the following paragraphs after paragraph .08:

.08A A transferor that holds a non-cash-generating asset or a group of non-cash-generating assets that are to be relinquished in a transfer of functions between entities under common control (see the Standard of GRAP on Transfer of Functions Between Entities Under Common Control), and combining entities that holds a non-cash-generating asset or a group of non-cash-generating assets that are to be transferred in a merger (see the Standard of GRAP on Mergers), shall apply the principles in this Standard until the transfer or merger date.

A14. Amend the following consequential amendments in GRAP 21:

**The Standard of GRAP on Investments in Associates**

D3. Paragraphs .40 and .41 are to be amended as follows:

.40 Because goodwill that forms part of the carrying amount of an investment in an associate is not separately recognised, it is not tested for impairment separately by applying the requirements for impairment testing goodwill in the Standards of GRAP on Impairment of Cash-generating Assets and Impairment of Non-cash-generating Assets. Instead the entire carrying amount of the investment is tested under for impairment in accordance with the Standards of GRAP on Impairment of Cash-generating Assets or Impairment of Non-cash-generating Assets as a single amount, by comparing its recoverable amount or recoverable service amount (higher of value in use and fair value less costs to sell) with its carrying amount, whenever application of the requirements in the Standards of GRAP on Financial Instruments indicates that the investment may be impaired.

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.40A In determining the value in use of a cash-generating the investment, an entity estimates:

- (a) its share of the present value of the estimated future cash flows expected to be generated by the associate, including the cash flows from the operations of the associate and the proceeds from the ultimate disposal of the investment, or
- (b) the present value of the estimated future cash flows expected to arise from dividends to be received from the investment and from its ultimate disposal.

Under appropriate assumptions, both methods give the same result. Any resulting impairment loss for the investment is allocated in accordance with the Standards of GRAP on Impairment of Non-cash-generating Assets and Impairment of Cash-generating Assets. Therefore, it is allocated first to any remaining goodwill (see paragraph .30).

**The Standard of GRAP on Employee Benefits (issued 2009)**

A15. Amend the following paragraph in GRAP 25:

.02 **This Standard shall be applied by an employer in accounting for all employee benefits, except share based payment transactions (see the International Financial Reporting Standard on Share-based Payment), and to the initial recognition and initial measurement of assets and liabilities acquired in a transfer of functions between entities under common control (see the Standard of GRAP on Transfer of Functions Between Entities Under Common Control) or a merger (see the Standard of GRAP on Mergers).**

**The Standard of GRAP on Impairment of Cash-generating Assets (issued 2009)**

A16. Add the following paragraphs after paragraph .08:

.08A A transferor that holds a cash-generating asset or a cash-generating unit that are to be relinquished in a transfer of functions between entities under common control (see the Standard of GRAP on Transfer of Functions Between Entities Under Common Control), and combining entities that holds a cash-generating asset or a cash-generating unit that are to be transferred in a merger (see the Standard of GRAP on Mergers), shall apply the principles in this Standard until the transfer or merger date.

A17. Delete the following paragraph in GRAP 26:

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~~.08 For guidance on the impairment of goodwill and the disclosure requirements related thereto, reference should be made to the International Accounting Standard on Impairment of Assets.~~

A18. Amend the following consequential amendments in GRAP 26:

**The Standard of GRAP on Investments in Associates**

D3. Paragraphs 40 and 41 are to be amended as follows:

~~.01 .40 Because goodwill that forms part of the carrying amount of an investment in an associate is not separately recognised, it is not tested for impairment separately by applying the requirements for impairment testing goodwill in the Standards of GRAP on Impairment of Cash-generating Assets and Impairment of Non-cash-generating Assets. Instead the entire carrying amount of the investment is tested under for impairment in accordance with the Standards of GRAP on Impairment of Cash-generating Assets or Impairment of Non-cash-generating Assets as a single amount by comparing its recoverable amount or recoverable service amount (higher of value in use and fair value less costs to sell) with its carrying amount, whenever application of the requirements in the Standards of GRAP on Financial Instruments indicates that the investment may be impaired.~~

~~.40 In determining the value in use of a cash-generating the investment, an entity estimates:~~

~~.02 (a) its share of the present value of the estimated future cash flows expected to be generated by the associate, including the cash flows from the operations of the associate and the proceeds from the ultimate disposal of the investment; or~~

~~.03 (b) the present value of the estimated future cash flows expected to arise from dividends to be received from the investment and from its ultimate disposal.~~

~~Under appropriate assumptions, both methods give the same result. Any resulting impairment loss for the investment is allocated in accordance with the Standards of GRAP on Impairment of Non-cash-generating Assets and Impairment of Cash-generating Assets. Therefore, it is allocated first to any remaining goodwill (see paragraph 30).~~

A19. Amend the following paragraphs in the Basis for Conclusions:

**Inclusion of Treatment of goodwill**

BC11. IAS 36 contains extensive requirements and guidance on the impairment of goodwill, the allocation of goodwill to cash-generating

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units and testing cash-generating units with goodwill for impairment. The Standard of GRAP on Transfer of Functions Between Entities Not Under Common Control requires that the difference between the assets acquired and liabilities assumed and the consideration transferred (if any) as of the acquisition date in surplus or deficit. As no goodwill is recognised in the statement of financial position, the principles of the impairment of goodwill is not applicable.

~~The IPSASB has, however, not yet issued an IPSAS dealing with entity combinations and considers it likely that a number of public sector specific issues will arise when combinations of public sector entities take place. As a result, the IPSASB concluded in the basis for conclusions to IPSAS 26 that impairment of goodwill should be scoped out from IPSAS 26.~~

~~BC12. The Board, however, agrees with the scope inclusion of impairment of goodwill as in IAS 36. The inclusion of goodwill in this Standard is consistent with the requirements in other Standards of GRAP already approved by the Board. The scope exclusion for the impairment of goodwill is therefore included in this Standard.~~

~~BC13. However, in the absence of a Standard of GRAP on Entity Combinations, reference should be made to the International Accounting Standard on Impairment of Assets (IAS 36) for guidance on the impairment of goodwill, and the disclosure requirements related to that.~~

A20. Amend the following in the comparison with IPSAS 26:

**Comparison with the International Public Sector Accounting Standard on Impairment of Cash-Generating Assets (January 2008)**

~~• Goodwill has been included in the scope of this Standard. IPSAS 26 excludes goodwill from its scope.~~

**The Standard of GRAP on Non-current Assets held for Sale and Discontinued Operations (issued 2006)**

A21. Add the following paragraph in GRAP 100:

~~.02A The disclosure requirements of this Standard do not apply to the combining entities in a merger.~~

**The Standard of GRAP on Agriculture (issued 2006)**

A22. Amend the following paragraphs in GRAP 101:

~~.04 This Standard does not apply to:~~

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- .....
- (d) the initial recognition and initial measurement of agricultural activity acquired in a transfer of functions between entities under common control (see the Standard of GRAP on *Transfer of Functions Between Entities Under Common Control*) or a merger (see the Standard of GRAP on *Mergers*);

.48 **An entity shall present a reconciliation of changes in the carrying amount of biological assets between the beginning and the end of the current period. The reconciliation shall include:**

- .....
- (e) **decreases due to harvest;**
- (eA) **decreases as a result of a transfer of functions between entities under common control or a merger;**
- (f) **increases resulting from a transfer of functions between entities under common control, a transfer of functions between entities not under common control or a merger entity combinations;**

The Standard of GRAP on *Intangible Assets* (issued 2006)

A23. Amend the following paragraphs in GRAP 102:

.03 **This Standard shall be applied in accounting for intangible assets, except:**

- .....
- (d) **the initial recognition and initial measurement of intangible assets acquired in a transfer of functions between entities under common control (see the Standard of GRAP on *Transfer of Functions Between Entities Under Common Control*) or a merger (see the Standard of GRAP on *Mergers*);**

.04 Where the accounting for a specific type of intangible asset is prescribed by another Standard of GRAP, an entity applies that Standard of GRAP. For example, this Standard does not apply to:

- .....
- (f) **goodwill acquired in an entity combination (see the Standard of GRAP on *Entity Combinations*);**
- (g) **in-process research and development projects acquired through an entity combination (see the Standard of GRAP on *Entity Combinations*);**

.121 **An entity shall disclose the following for each class of intangible assets, distinguishing between internally generated intangible assets and other intangible assets:**

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- .....
- (e) **A reconciliation of the carrying amount at the beginning and end of the period showing:**

- (iA) **acquisitions through a transfer of functions between entities under common control, a transfer of functions between entities not under common control or a merger;**

Comparison with the International Accounting Standard on *Intangible Assets* (June 2004)

The Standard of GRAP on *Intangible Assets* is drawn primarily from the International Accounting Standard on *Intangible Assets* (IAS 38). The main differences between the Standard of GRAP on *Intangible Assets* and the IAS on *Intangible Assets* are as follows:

- The Standard excludes guidance in this Standard on accounting for intangible assets acquired as part of a transfer of functions, an entity combination and in-process research and development costs acquired in a transfer of functions, an entity combination is different that in IAS 38 as the Standard of GRAP on *Transfer of Functions Between Entities Not Under Common Control* excluded certain exceptions to the recognition and/or measurement principles from the equivalent IFRS, as the Board has not yet considered the applicability of entity combinations to the South African public sector.
- Guidance on the treatment of goodwill in this Standard has been aligned with the requirements in the Standard of GRAP on *Transfer of Functions Between Entities Not Under Common Control*.
- The disclosure requirements in IAS 38 that require the disclosure of increases resulting from entity combinations have been deleted from this Standard, as the Board has not yet considered the applicability of entity combinations to the South African public sector.

A24. The following paragraph is to be inserted in GRAP 102:

**Acquisition as part of a transfer of functions**

39A In accordance with the Standard of GRAP on *Transfer of Functions Between Entities Not Under Common Control*, if an intangible asset is acquired in a transfer of functions, the cost of that intangible asset is its fair value at the acquisition date. The fair value of the intangible asset will reflect expectations about the probability that the expected future economic benefits or service potential embodied in the asset will flow to the entity. In other words, the entity expects there to be an inflow of economic benefits or service potential, even if there is uncertainty about the timing or the amount of the inflow. Therefore, the probability recognition criterion in paragraph 24(a) is always considered to be satisfied for intangible asset acquired in a

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transfer of functions. If an asset acquired in a transfer of functions is separable or arises from contractual rights (including rights arising from binding arrangements) or other legal rights (excluding rights granted by statute), sufficient information exists to measure reliably the fair value of the asset. Thus, the reliable measurement criterion in paragraph 24(b) is always considered to be satisfied for intangible assets acquired in a transfer of functions.

**The Standard of GRAP on Heritage Assets (issued 2008)**

A25. Amend the following paragraphs in GRAP 103:

**.02** An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in the recognition, measurement and disclosure of all assets that meet the definition of a heritage asset, except the initial recognition and initial measurement of heritage assets acquired in a transfer of functions between entities under common control (see the Standard of GRAP on Transfer of Functions Between Entities Under Common Control) or a merger (see the Standard of GRAP on Mergers).

**.83** The financial statements shall disclose, for each class of heritage assets recognised in the financial statements:

- .....
- (c) a reconciliation of the carrying amount at the beginning and end of the period showing:
  - (iii) acquisitions through a transfer of functions between entities under common control, a transfer of functions between entities not under common control or a merger entity combinations,

**The Standard of GRAP on Financial Instruments (issued 2009)**

A26. Amend the following paragraphs in GRAP 104:

**.02** An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for financial instruments except:

- ....
- (c) the initial recognition and initial measurement of financial instruments acquired in a transfer of functions between entities under common control (see the Standard of GRAP on Transfer of Functions Between

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Entities Under Common Control or a merger (see the Standard of GRAP on Mergers).

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## Basis for Conclusions

*This basis for conclusions accompanies, but is not part of the Standard of GRAP.*

- BC1. This basis for conclusions summarises the Board's considerations in developing the Standard of GRAP on *Mergers*. In forming its views, the Board considered the views expressed and the comment received from stakeholders that responded to the Invitation to Comment (ITC) on a Discussion Paper on *Transfer of Functions* issued in November 2007. The Board further considered the responses to an Invitation to Comment on an exposure draft of the Standard of GRAP on *Mergers* (issued May 2010).
- BC2. In developing this Standard of GRAP, the Board considered the principles in the Standards of GRAP on *Revenue from Exchange Transactions* (GRAP 9), *Revenue from Non-exchange Transactions (Taxes and Transfers)* (GRAP 23), *Non-current Assets Held for Sale and Discontinued Operations* (GRAP 100) and the International Financial Reporting Standard on *Business Combinations* (IFRS 3) issued by the International Accounting Standards Board (IASB).
- BC3. A project on the accounting for entity combinations arising from exchange transactions is included on the International Public Sector Accounting Standards Board's (IPSASB) work programme. The Board will continue to monitor this project and, at an appropriate time, consider the implications of the IPSASB project on the Standard of GRAP on *Mergers*, if any.

## Scope (paragraphs .02 to .05)

- BC4. A merger involves the establishment of a new combined entity in which none of the former entities obtains control over any other and no acquirer can be identified. The combining entities rather came together for the mutual sharing of risks and benefits of the combined entity. A transaction or event in which no acquirer can be identified can either involve the combination of two or more entities in which one of the combining entities continues to become the combined entity, or a new reporting entity is established from the combining entities. The Discussion Paper considered various alternatives to account for a transaction or event that meets the definition of merger. In considering IFRS 3, the Board agreed that the acquisition method will not be appropriate to account for a transaction or event that meets the definition of merger. The acquisition method requires the identification of an acquirer that obtains control of an acquiree in a transaction or event that meets the definition of a business combination, as defined in IFRS 3. In a merger however, no acquirer is identified, and a merger does thus not result in one entity obtaining control over another. While entities in an entity combination obtain control over another entity, mergers do not involve control as no

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acquirer can be identified. The Standard of GRAP on *Mergers* should be applied in accounting for a merger. Even though reference was made to IFRS 3 in developing this Standard, the Standard departs from the acquisition method principles as established in IFRS 3.

- BC5. For a transaction or event to fall within the scope of this Standard, no acquirer should be identified and the new reporting entity should be established, formed from combining entities that came together for the mutual sharing of risks and benefits. The relative risks and benefits of the combining entities prior to the merger are maintained and their decision making powers are preserved in the new reporting entity. All parties to the transaction or event, as represented by management, participate in establishing the management structure of the combined entity, and assist in selecting the management personnel. These decisions are made on the basis of consensus between the parties to the transaction or event.
- BC6. The concept of control is not relevant in a transaction or event that meets the definition of a merger as no acquirer can be identified. A transaction or event in which an acquirer is identified and that is undertaken between entities under common control or a transaction undertaken between entities not under common control, should be accounted for in terms of the Standards of GRAP on *Transfer of Functions Between Entities Under Common Control* or *Transfer of Functions Between Entities Not Under Common Control*.

## Recognition and measurement

- BC7. As limited guidance exists in the public sector on the accounting for mergers, the Board considered the appropriateness of the fresh start method and the pooling of interests method to account for a transaction or event that meets the definition of a merger.
- BC8. The Discussion Paper concluded that, while the fresh start method might be appropriate because it assumes that a new entity is started and all the assets and liabilities of that new entity are valued at fair value, little literature is available on the mechanics and rationale of this method. The Board also noted that determining the fair value of the assets and liabilities to be transferred and derecognised by the combining entities, will have additional cost implications. The Board further noted that few countries apply the fresh start method in practice. The Discussion Paper thus concluded that the fresh start method is an appropriate method to account for mergers.
- BC9. Under the pooling of interests method, on the other hand, entities are deemed to continue within a new form, while the economic substance of the combining entities remains unchanged. As the combining entities are deemed to only continue under a new legislative framework, their assets and

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liabilities are transferred and derecognised at carrying amounts. The Discussion Paper concluded that the application of the pooling of interests method is the preferred method for purposes of developing accounting guidance for mergers.

BC10. Respondents to the Discussion paper supported this proposal but questioned the practicality of the approach as it involves the restatement of comparative information by applying uniform accounting policies to the prior year figures of the combining entities. The Board reconsidered the accounting principles to be applied under this approach. The Board confirmed that the pooling of interests method should be applied to account for a transaction or event that meets the definition of a merger, but agreed that the principles should be applied prospectively from the merger date. As a result, no comparative information will be required by the combined entity in its first year of operations. Respondents to the exposure draft supported these proposals.

BC11. During the comment period, some respondents raised concerns about the fact that the combining entities' carrying amounts could be incomplete on the merger date due to the values being inaccurate or because a combining entity is applying a different basis of accounting. A requirement has been included in the Standard to clarify that if a combining entity is not applying an accrual basis of accounting, that combining entity should change its basis of accounting to an accrual basis of accounting prior to the merger.

**Measurement period**

BC12. The Standard provides the combined entity with a reasonable period after the merger, a measurement period, during which to obtain the information necessary to identify and measure the assets acquired and liabilities assumed in a merger. If sufficient information is not available at the merger date to measure the assets and liabilities, the combined entity determines and recognises provisional amounts until the necessary information becomes available.

BC13. A constraint is placed on the period for which it is deemed reasonable to seek information necessary to complete the accounting for a merger. The measurement period ends as soon as the combined entity receives the necessary information about facts and circumstances that existed as of the merger date or learns that the information is not obtainable. The Board agreed to a measurement period of two years.

BC14. The Board also concluded that the combined entity should provide the users of financial statements with relevant information about the status of items that have been measured using provisional amounts. A disclosure requirement has been included to provide such information.







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