



# treasury

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Department:

Treasury

**PROVINCE OF KWAZULU-NATAL**

## **PROVINCIAL FINANCIAL MANAGEMENT & mSCOA FORUM**

### **Responses to accounting queries and technical support**

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## GRAP 1: Presentation of the Annual Financial Statements Information disclosed in AFS

- **Can an entity disclose information required in terms of GRAP in the notes to the AFS or are they encouraged to disclose in appendices?**
- GRAP 1 indicates that the notes to the AFS may include items referred to as “schedules”, “annexures” or “appendices”
- Entities may therefore disclose information required/encouraged by GRAP in schedules, annexures and appendices.
- However, entities should clearly indicate whether such schedules, annexures or appendices are part of the AFS e.g by referring the relevant accounting policies, and/or notes to the annexures
- Clearly distinguish between schedules, annexures, appendices that are part of the AFS and those schedules, annexures, appendices that are not.
- Consider placement of such schedules, annexures, appendices that are part of the AFS after the notes to the AFS



## GRAP 1: Presentation of the Annual Financial Statements VAT classification as exchange/non-exchange

- VAT is an indirect tax based on consumption of goods or services in the economy.
- Where an entity sells final goods and services to consumers, it is responsible to collect taxes from its consumers for goods and services provided
- The municipality therefore acts as an agent in collecting or remitting VAT to the National Government.
- Therefore VAT receivable or payable is deemed to be an exchange transaction.
- Similarly, other types of taxes which are collected by entities as agents (e.g. Employees' taxes and UIF) are exchange transactions



## GRAP 1: Presentation of the Annual Financial Statements Prepayments

- Entities may make payments to third parties for goods and services to be provided in the future.
- The substance of the arrangement is, by making an advance payment to a third party, the entity has the right to the receipt of goods or services in the future.
- As this right relates to goods and services, rather than financial assets, these are not financial assets, therefore GRAP 104 cannot be applied.
- As no standard addresses directly the accounting treatment for prepayments for goods and services, the municipality should formulate an accounting policy based on the standards of GRAP for which similar examples exist; and the framework for preparation and presentation of financial statements.
- Municipalities should further consider that these prepayments are assets, and principles of discounting (if older than a year) and impairment (whether these services will ever be received) need to be considered in formulating the accounting



## GRAP 3: Accounting Policies, Change in Estimates, Errors Borrowing costs

- A municipality may, in the past, incurred very low levels of borrowing, and as a result, the entity did not separately disclose its borrowing costs as they were insignificant in relation other expense items.
- The municipality then incurs significant borrowing costs related to a specific borrowing for a project, and the municipality now adopts a policy to capitalise borrowing costs related to the qualifying asset.
- The adoption of this policy is a new accounting policy, and is not a change in accounting policy. Hence it is prospectively applied.



## GRAP 19: Provisions, contingent liabilities and assets Accounting for leave as a provision vs accrual

- The leave liability should be recognised as a provision or accrual depending on the level of uncertainty attached to either the timing or amount.
- Entity's policy is to pay out leave at the end of the year, if not utilised: no uncertainty on timing or amount, hence it is an accrual
- Leave is forfeited if not taken within the year of entitlement: no uncertainty as all employees would want to take leave, hence it is an accrual.
- Any unused leave will be forfeited if not utilised within 6 months after financial year end: timing is certain but amount is not, (do we know how much will be forfeited?) hence it is a provision
- Any unused leave will be paid out on retirement or death: uncertainty in timing and amount. Hence a provision.



## GRAP 19: Provisions, contingent liabilities and assets Bonus as a provision vs accrual

- Bonuses payable should be treated as an accrual or a provision, depending on the level of uncertainty attached to the timing or amount.
- Municipality pays out bonuses (13<sup>th</sup> Cheques) in December each year, pro rata to period worked by employee: No uncertainty on timing or amount, hence accrual
- Performance bonus at 15% of cost to company, within 6 months after financial year end, based on targets met: Timing is certain but amount is not, hence recognise a provision.
- Remember to consider effect of legal vs constructive obligation



## GRAP 9 & 23: Revenue from exchange/nonexchange transactions: Effect of iGRAP 1

- iGRAP 1: Applying the Probability test on initial recognition of revenue
- Municipalities are required to recognise the full amount of exchange and non-exchange revenue on the transaction date.
- Assessing and recognising impairment takes place subsequently to the initial revenue being recognised, and therefore an entity should assess the probability of collecting revenue when the account falls into arrears.
- Consider the impact on traffic fines
- Apply prospectively from financial years commencing on or after 1 April 2013



# Thank You!

## Contact Details:

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