

Improving the quality of the financial statements



Disclaimer

The views and opinions expressed in this presentation are those of the individual. Official positions of the ASB on accounting matters are determined only after extensive due process and deliberation.



What are “good” financial statements?

High quality financial statements provide information that is....

...relevant

...a faithful representation

...understandable

...verifiable

...comparable

...timely

High quality financial statements provide information that is....

...relevant

...a faithful representation

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...verifiable

...comparable

...timely

When is information relevant?

When is information **relevant**?



Targets the right people



They get the right information



They use the information in the right way

Which people?



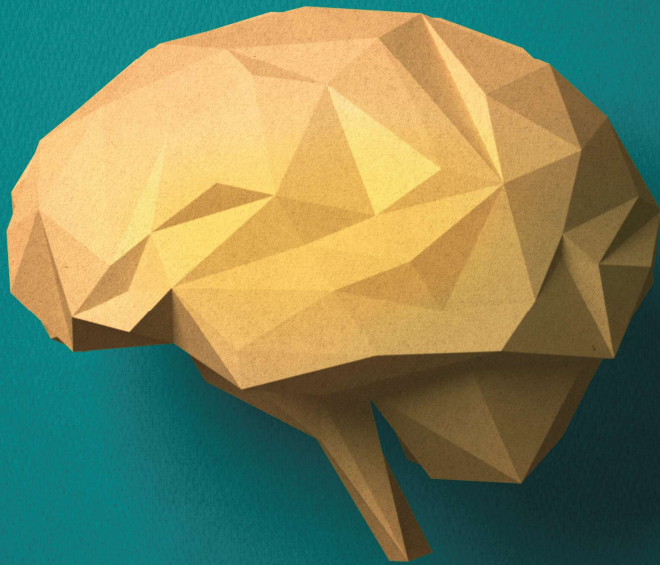
Who do we prepare
the financial
statements for?

What information?



Why do we prepare financial statements?

How is the information used?



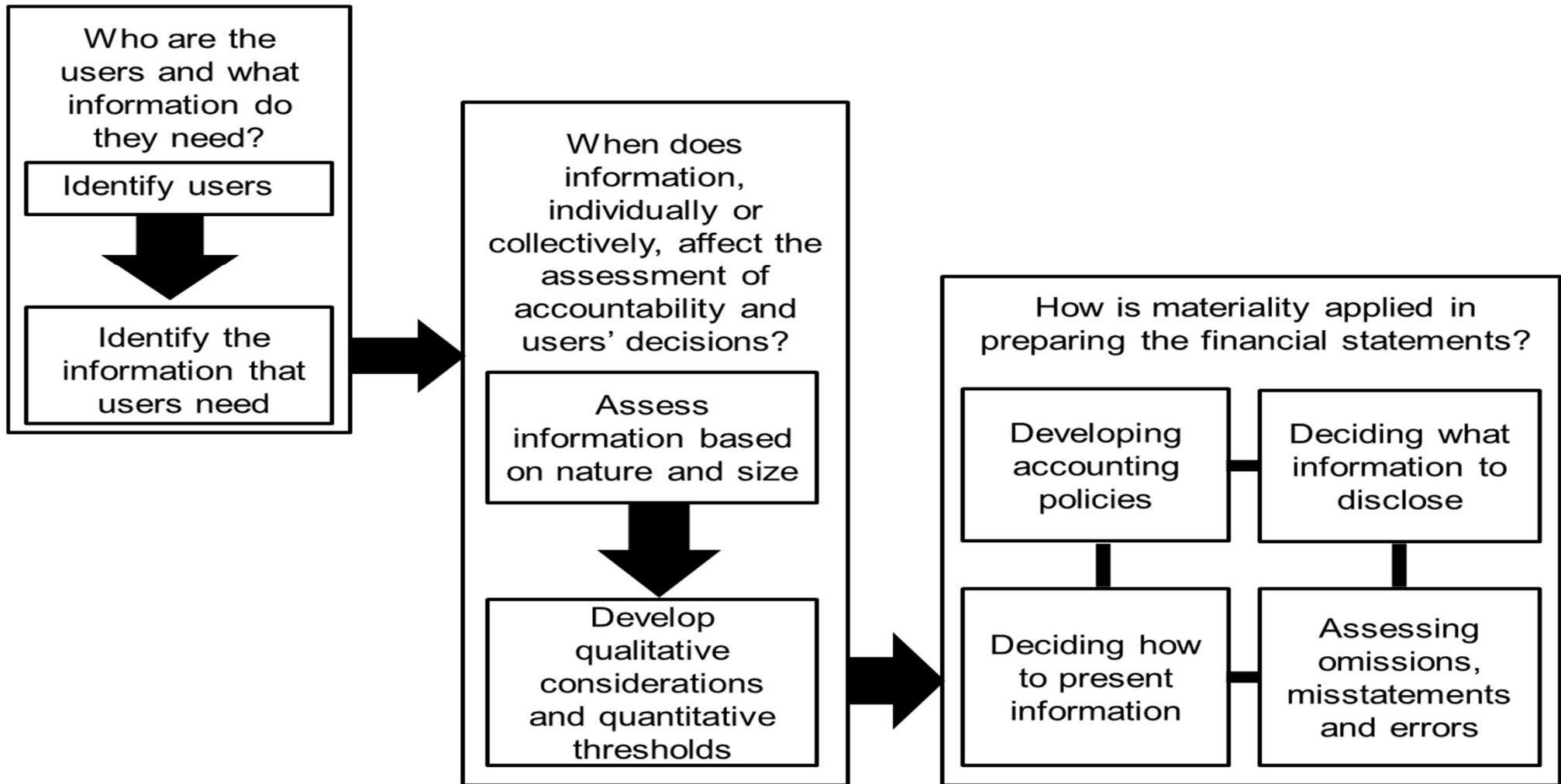
What decisions do users want to make?

The key principle to make these decisions...

Materiality

Omissions or misstatements of items are material if they could, individually or collectively, influence the decisions or assessments of users made on the basis of the financial statements. Materiality depends on the nature or size of the omission or misstatement judged in the surrounding circumstances. The nature or size of the information item, or a combination of both, could be the determining factor.

Materiality



When is information understandable?

When is information **understandable?**

- ✓ Simple.
- ✓ Concise.
- ✓ Minimise accounting jargon.
- ✓ Explains application to the entity, its environment, its transactions.
- ✓ Avoid “boilerplate” wording.

What steps can you take to improve the quality of the financial statements?

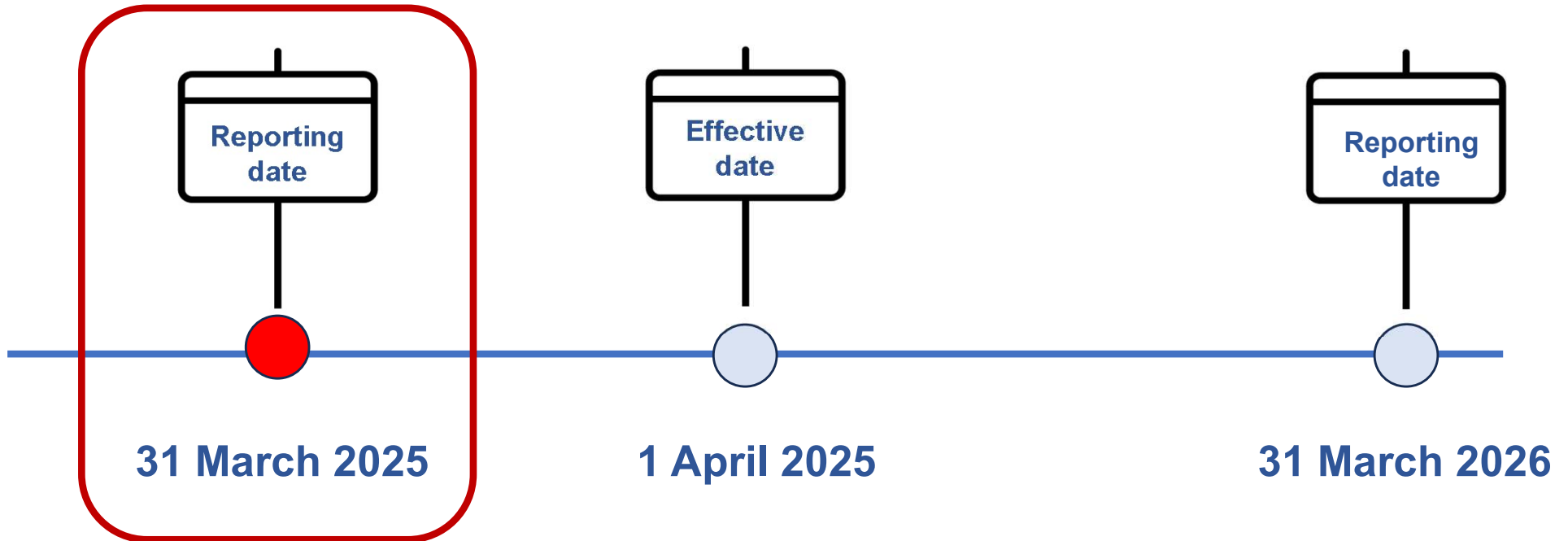


Steps you can take

- Start early! Not just an end year process!
- Set materiality + develop a “Framework” at the start of the year.
- Prepare for changes in advance.
- Make sure policies, processes, system supports new or amended Standards and changes in the entity’s operating or regulatory environment.

Preparing for changes

Using new GRAP 104 on Financial Instruments as an example
Effective date is 1 April 2025



**Should already be
prepared for adoption!**



Steps you can take

Directives – ASB | Directive 5 – ASB | Determining the GRAP Reporting Framework – ASB

asb.co.za/determining-the-grap-reporting-framework-2024-25/

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Directive 5 Reporting Framework (1 April 2024)

Full Reporting Framework (1 April 2024)

Reporting framework 2024.25 and status of IPSAS and IFRS Accounting Standards

Reporting Frameworks at a Glance 202425

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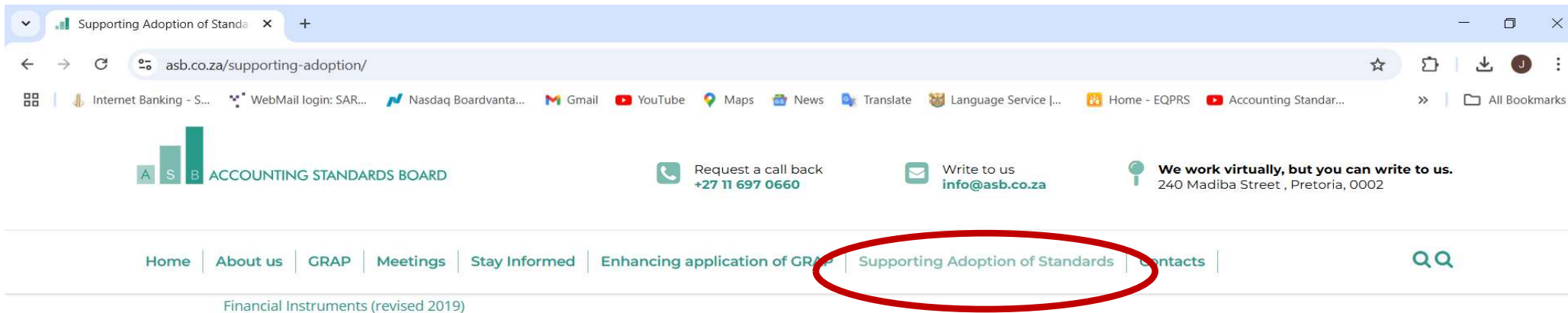
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Steps you can take



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Steps you can take

Enhancing the application of GRAP

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Topics

- Workplan 2024/2025
- General
- Assets
- Understanding The Financial Statements
- On the Agenda for 2024/2025
- Basic Principles from GRAP 1 Presentation on Financial Statements and the Conceptual framework
- Frequently Asked Questions

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Steps you can take



<https://lms.treasury.gov.za>

What to expect – 2024/25 and beyond



31 March 2025 and beyond

No new
Standards of
GRAP or
IGRAPs

2024/25

1. IGRAP 22
on *Foreign
Currency
Transactions and
Advance
Consideration*
2. GRAP 104
on *Financial
Instruments (2019)*

2025/26

1. *Improvements to
Standards of GRAP,
2023*
2. GRAP 1 on
*Presentation of
Financial Statements
(going concern)*
3. GRAP 103 on *Heritage
Assets*
4. Amendments to GRAP
105, GRAP 106 and
GRAP 107 on
*Transfers of Functions
and Mergers*

To be determined
by the Minister of
Finance

Effective dates and adoption arrangements of changes

Topic	Background	Initial application
IGRAP 22 on <i>Foreign Currency Transactions and Advance Consideration</i>	IGRAP developed from IFRIC 22 on <i>Foreign Currency Transactions and Advance Consideration</i>	1 April 2025 Early adoption permitted
GRAP 104 on <i>Financial Instruments (2019)</i>	Replaced GRAP 104	1 April 2025 Early adoption permitted (entire Standard)

Effective dates and adoption arrangements of changes

Topic	Background	Initial application
GRAP 1 on <i>Presentation of Financial Statements</i> (Going concern guidance)	Amendments to better explain when it is appropriate to prepare financial statements on a going concern basis Additional disclosure requirements	May not early adopt – Minister must still determine effective date
GRAP 103 on <i>Heritage Assets</i>	Followed the PIR, amendments aligned to stakeholder feedback e.g. definition and measurement guidance. FAQs to be published when effective	May not early adopt – Minister must still determine effective date

Effective dates and adoption arrangements of changes

Topic	Background	Initial application
Improvements to Standards of GRAP, 2023	Minor amendments aligned with international standard-setters as well as local stakeholder input	May not early adopt – Minister must still determine effective date
Amendments to GRAP 105, GRAP 106 and GRAP 107 on <i>Transfers of Functions and Mergers</i> .	Amended to align GRAP 105, GRAP 106 and GRAP 107 to IPSAS 40 on <i>Public Sector Combinations</i> and IFRS 3 on <i>Business Combinations</i>	May not early adopt – Minister must still determine effective date

IFRS not to be applied

Topic	IPSAS	ASB process
Fair Value Measurement (IFRS 13)	IPSAS 46 <i>Measurement</i> (Effective 1 January 2025)	2024-2026 work programme
Regulatory Deferral Accounts (IFRS 14)	No equivalent. The Standard only applies to first-time adopters of IFRS Accounting Standards.	Standard is not applicable to entities that apply Standards of GRAP

IFRS not to be applied

Topic	IPSAS	ASB process
Revenue from Contracts with Customers (IFRS 15)	IPSAS 47 <i>Revenue</i> (Effective 1 January 2026)	<p>Work programme for 2024 to 2026</p> <p>Apply</p> <ul style="list-style-type: none"> • GRAP 9 on <i>Revenue from Exchange Transactions</i> • GRAP 11 on <i>Construction Contracts</i> • GRAP 23 on <i>Revenue from Non-exchange Transactions (Taxes and Transfers)</i>

IFRS not to be applied

Topic	IPSAS	ASB process
Leases (IFRS 16)	IPSAS 43 on <i>Leases</i> (Effective 1 January 2025)	Apply GRAP 13 on <i>Leases</i> Project to revise Standard of GRAP to be considered after 2026
Insurance (IFRS 17)	No equivalent	Not to be considered in 2024/25 Included in the Reporting Framework from 2025/2026. Limited application – only entities with insurance contracts in the scope of IFRS 17

IFRS not to be applied

Topic	IPSAS	ASB process
Presentation and Disclosure in Financial Statements (IFRS 18)	IPSASB has commenced work on an IPSAS	Likely consider project after 2027-2029 work programme
Subsidiaries Without Public Accountability: Disclosures (IFRS 19)	No equivalent	Standard is not applicable to entities that apply Standards of GRAP

IPSAS not to be applied

Topic	ASB process
Amendments to IPSAS 19 for collective and individual services	On the ASB work programme for 2024 to 2026
Employee Benefits [IPSAS 39]	Apply GRAP 25 on <i>Employee Benefits</i>
Public Sector Combinations [IPSAS 40]	Apply GRAP 105, GRAP 106 and GRAP 107 on transfers of functions and mergers
Financial instruments [IPSAS 28-30 and 41]	Apply GRAP 104 on <i>Financial Instruments</i>
Social benefits [IPSAS 42]	Retain current accounting policies. Project underway to develop Standard of GRAP on <i>Social Benefits</i> .

IPSAS not to be applied

Topic	ASB process
Non-current Assets Held for Sale and Discontinued Operations [IPSAS 44]	Apply GRAP 100 <i>Discontinued Operations</i> and GRAP 1 <i>Presentation of Financial Statements</i> (disclosure requirements)
Property, plant and equipment (revised) [IPSAS 45]	<p>Revised guidance on:</p> <ul style="list-style-type: none"> • Measurement – as part of the ASB's Measurement project • Infrastructure – ASB's next Improvements project • Heritage assets – apply GRAP 103 on <i>Heritage Assets</i>

IPSAS not to be applied

Topic	ASB process
Transfer Expenses [IPSAS 48]	On the ASB work programme for 2024 to 2026
Retirement Benefit Plans [IPSAS 49]	Board did not determine IPSAS 49 to be applicable to the local environment
Exploration for and Evaluation of Mineral Resources [IPSAS 50]	IFRS 6 on <i>Exploration for and Evaluation of Mineral Resources</i> included in GRAP Reporting Framework for 2024/2025 (may be considered to the extent applicable)

Getting ready for Financial Instruments (revised 2019)



Key changes

- Why the change?
 - Changes in IFRS 9 and IPSAS 41 - to address shortcomings in the classification and measurement of financial instruments that were highlighted during the financial crisis.
- Most significant changes:
 - Scope - financial guarantee contracts and some loan commitments now in scope. Previously GRAP 19.
 - Classification - same number of categories, classification principles substantially changed.
 - Subsequent measurement – impairment model

Key changes to the scope

Scope

- Financial guarantee contracts issued and loan commitments now in GRAP 104, not GRAP 19.

Financial guarantee contracts

- Financial guarantees versus other guarantees.
- Initial measurement at fair value - usually equal to consideration received.
- Subsequently at higher of fair value less amortisation and ECL.

Scope

Loan commitments

- Not all loan commitments fall in the scope of GRAP 104.
- Initial measurement at fair value - usually equal to consideration received.
- Subsequently at higher of fair value less amortisation and ECL.
- Measurement of *commitments to provide concessionary loans* includes the value of any social benefit provided.

Key changes to classification

Classification

Classification of financial assets

Amortised cost

Old GRAP 104

Non-derivative
Fixed or determinable payments
Not held for trading or
designated at fair value

New GRAP 104

Management model – hold to
collect cash flows
Solely payments of principal and
interest

Fair value

Old GRAP 104

Derivatives, held for trading,
designated at fair value

New GRAP 104

Management model – hold + sell,
sell
Do not meet SPPI

Key changes to impairment

Impairment

Change in impairment model

Financial assets at amortised cost

Old GRAP 104

Incurred loss model
Focusses on historical data
Does not allow for timely action

New GRAP 104

Expected credit loss model
Past, current and future data
More timely decision making

New model

- Two step approach ➡ 1) Determine the period over which credit losses calculated and 2) Determine ECL.
- Probability weighted

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