Deidre Manuel
Local Government Accounting
Email: Deidre.Manuel@westerncape.gov.za
tel: +27 21 483 6690 fax: +27 21 483 7293

Reference: T7/2/7

TREASURY CIRCULAR MUN NO. 52/2014

THE MAYOR, CITY OF CAPE TOWN: MS P DE LILLE
THE MAYOR, WEST COAST DISTRICT MUNICIPALITY: MR JH CLEOPHAS
THE MAYOR, MATZIKAMA MUNICIPALITY: MR J BOTHA
THE MAYOR, CEDERBERG MUNICIPALITY: MS L SCHEEPERS
THE MAYOR, BERGRIVIER MUNICIPALITY: MR EB MANUEL
THE MAYOR, SALDANHA BAY MUNICIPALITY: MR F SCHIPPERS
THE MAYOR, SWARTLAND MUNICIPALITY: MR T VAN ESSEN
THE MAYOR, CAPE WINELANDS DISTRICT MUNICIPALITY: MR N DE BRUYN
THE MAYOR, WITZENBERG MUNICIPALITY: MR J KLAZEN
THE MAYOR, DRAKENSTEIN MUNICIPALITY: MS G VAN DEVENTER
THE MAYOR, STELLENBOSCH MUNICIPALITY: MR CJ SIDEGO
THE MAYOR, BREEDE VALLEY MUNICIPALITY: MS A STEYN
THE MAYOR, LANGEBERG MUNICIPALITY: MS D GAGIANO
THE MAYOR, OVERBERG DISTRICT MUNICIPALITY: MR L DE BRUYN
THE MAYOR, THEEWATERSKLOOF MUNICIPALITY: MR CB PUNT
THE MAYOR, OVERSTRAND MUNICIPALITY: MS N BOTHA-GUTHRIE
THE MAYOR, CAPE AGULHAS MUNICIPALITY: MR R MITCHELL
THE MAYOR, SWELLENDAM MUNICIPALITY: MR N MYBURGH
THE MAYOR, EDEN DISTRICT MUNICIPALITY: MR V VAN DER WESTHUIZEN
THE MAYOR, KANNALAND MUNICIPALITY: MR J DONSON
THE MAYOR, HESSEQUA MUNICIPALITY: MS E NEL
THE MAYOR, MOSSEL BAY MUNICIPALITY: MS M FERREIRA
THE MAYOR, GEORGE MUNICIPALITY: MR C STANDERS
THE MAYOR, OUDTSHOORN MUNICIPALITY: MR G APRIL
THE MAYOR, BITOU MUNICIPALITY: MR M BOOYSEN
THE MAYOR, KNYSNA MUNICIPALITY: MS J WOLMARANS
THE MAYOR, CENTRAL KAROO DISTRICT MUNICIPALITY: MR E NJADU
THE MAYOR, LAINGSBURG MUNICIPALITY: MR W THERON
THE MAYOR, PRINCE ALBERT MUNICIPALITY: MR G LOTTERING
THE MAYOR, BEAUFORT WEST MUNICIPALITY: MR HT PRINCE

THE MUNICIPAL MANAGER, CITY OF CAPE TOWN: MR A EBRAHIM
THE MUNICIPAL MANAGER, WEST COAST DISTRICT MUNICIPALITY: MR H PRINS
THE MUNICIPAL MANAGER, MATZIKAMA MUNICIPALITY: MR M BOLTON (ACTING)
THE MUNICIPAL MANAGER, CEDERBERG MUNICIPALITY: MR I KENNED
THE MUNICIPAL MANAGER, BERGRIVIER MUNICIPALITY: ADV H LINDE
THE MUNICIPAL MANAGER, SALDANHA BAY MUNICIPALITY: MR L SCHEEPERS
THE MUNICIPAL MANAGER, SWARTLAND MUNICIPALITY: MR J SCHOLTZ
THE MUNICIPAL MANAGER, CAPE WINELANDS DISTRICT MUNICIPALITY: MR M MGAJO
THE MUNICIPAL MANAGER, WITZENBERG MUNICIPALITY: MR D NASSON
THE MUNICIPAL MANAGER, DRAKENSTEIN MUNICIPALITY: MR J METTLER
THE MUNICIPAL MANAGER, STELLENBOSCH MUNICIPALITY: MS C LIEBENBERG
THE MUNICIPAL MANAGER, BREEDE VALLEY MUNICIPALITY: MR G MATTHYSE
THE MUNICIPAL MANAGER, LANGEBERG MUNICIPALITY: MR SA MOKWENI
THE MUNICIPAL MANAGER, OVERBERG DISTRICT MUNICIPALITY: MR D BERETTI
THE MUNICIPAL MANAGER, THEEWATERSKLOOF MUNICIPALITY: MR HSD WALLACE
THE MUNICIPAL MANAGER, OVERSTRAND MUNICIPALITY: MR C GROENEWALD
THE MUNICIPAL MANAGER, CAPE AGULHAS MUNICIPALITY: MR D O'NEILL
THE MUNICIPAL MANAGER, SWELLENDAM MUNICIPALITY: MR CM AFRICA
THE MUNICIPAL MANAGER, EDEN DISTRICT MUNICIPALITY: MR GW LOUW
THE MUNICIPAL MANAGER, KANNALAND MUNICIPALITY: MR M HOOGBAARD
THE MUNICIPAL MANAGER, HESSEQUA MUNICIPALITY: MR J JACOBS
THE MUNICIPAL MANAGER, MOSSEL BAY MUNICIPALITY: DR M GRATZ

THE MUNICIPAL MANAGER, GEORGE MUNICIPALITY: MR T BOTHA
THE MUNICIPAL MANAGER, OUDTSHOORN MUNICIPALITY: MR R LOTTERING (ACTING)
THE MUNICIPAL MANAGER, BITOU MUNICIPALITY: MR A PAULSE
THE MUNICIPAL MANAGER, KNYSNA MUNICIPALITY: MS L WARING
THE MUNICIPAL MANAGER, CENTRAL KAROO DISTRICT MUNICIPALITY: MR S JOOSTE
THE MUNICIPAL MANAGER, LAINGSBURG MUNICIPALITY: MR P WILLIAMS
THE MUNICIPAL MANAGER, PRINCE ALBERT MUNICIPALITY: MR H METTLER
THE MUNICIPAL MANAGER, BEAUFORT WEST MUNICIPALITY: MR J BOOYSEN

THE CHIEF FINANCIAL OFFICER, CITY OF CAPE TOWN: MR K JACOBY
THE CHIEF FINANCIAL OFFICER, WEST COAST DISTRICT MUNICIPALITY: MR J KOEKEMOER
THE CHIEF FINANCIAL OFFICER, MATZIKAMA MUNICIPALITY: MR M BOLTON
THE CHIEF FINANCIAL OFFICER, CEDERBERG MUNICIPALITY: MR E ALFRED
THE CHIEF FINANCIAL OFFICER, BERGRIVIER MUNICIPALITY: MR JA VAN NIEKERK
THE CHIEF FINANCIAL OFFICER, SALDANHA BAY MUNICIPALITY: MR S VORSTER
THE CHIEF FINANCIAL OFFICER, SWARTLAND MUNICIPALITY: MR K COOPER
THE CHIEF FINANCIAL OFFICER, CAPE WINELANDS DISTRICT MUNICIPALITY: MS FA DU RAAN-GROENEWALD
THE CHIEF FINANCIAL OFFICER, WITZENBERG MUNICIPALITY: MR C KRITZINGER
THE CHIEF FINANCIAL OFFICER, DRAKENSTEIN MUNICIPALITY: MR J CARSTENS
THE CHIEF FINANCIAL OFFICER, STELLENBOSCH MUNICIPALITY: MR M WÜST
THE CHIEF FINANCIAL OFFICER, BREEDE VALLEY MUNICIPALITY: MR D McTHOMAS
THE CHIEF FINANCIAL OFFICER, LANGEBERG MUNICIPALITY: MR CF HOFFMANN
THE CHIEF FINANCIAL OFFICER, OVERBERG DISTRICT MUNICIPALITY: MR J TESSELAAR
THE CHIEF FINANCIAL OFFICER, THEEWATERSKLOOF MUNICIPALITY: MR D LOUW
THE CHIEF FINANCIAL OFFICER, OVERSTRAND MUNICIPALITY: MS S REYNEKE-NAUDE
THE CHIEF FINANCIAL OFFICER, CAPE AGULHAS MUNICIPALITY: MR H VAN BILJON
THE CHIEF FINANCIAL OFFICER, SWELLENDAM MUNICIPALITY: MR H SCHLEBUSCH
THE CHIEF FINANCIAL OFFICER, EDEN DISTRICT MUNICIPALITY: MS L HOEK
THE CHIEF FINANCIAL OFFICER, KANNALAND MUNICIPALITY: MR N DELO
THE CHIEF FINANCIAL OFFICER, HESSEQUA MUNICIPALITY: MS HJ VILJOEN
THE CHIEF FINANCIAL OFFICER, MOSSEL BAY MUNICIPALITY: MR HF BOTHA
THE CHIEF FINANCIAL OFFICER, GEORGE MUNICIPALITY: MR K JORDAAN
THE CHIEF FINANCIAL OFFICER, OUDTSHOORN MUNICIPALITY: ADV F HUMAN (ACTING)
THE CHIEF FINANCIAL OFFICER, BITOU MUNICIPALITY: MR F LÖTTER
THE CHIEF FINANCIAL OFFICER, KNYSNA MUNICIPALITY: MR G EASTON
THE CHIEF FINANCIAL OFFICER, CENTRAL KAROO DISTRICT MUNICIPALITY: MR N NORTJE (ACTING)
THE CHIEF FINANCIAL OFFICER, LAINGSBURG MUNICIPALITY: MS A GROENEWALD
THE CHIEF FINANCIAL OFFICER, PRINCE ALBERT MUNICIPALITY: MR J NEETHLING
THE CHIEF FINANCIAL OFFICER, BEAUFORT WEST MUNICIPALITY: MR F SABBAT

THE HEAD OFFICIAL: PROVINCIAL TREASURY (DR JC STEGMANN)
THE HEAD: BRANCH FISCAL AND ECONOMIC SERVICES (MR H MALILA)
THE HEAD: BRANCH GOVERNANCE AND ASSET MANAGEMENT (MR Z HOOSAIN)
THE HEAD: PUBLIC POLICY SERVICES (MR H MALILA) (PRO TEM)
THE HEAD: PROVINCIAL GOVERNMENT PUBLIC FINANCE (MS JD GANTANA)
THE HEAD: LOCAL GOVERNMENT PUBLIC FINANCE (MR H MALILA) (PRO TEM)
THE HEAD: ASSET MANAGEMENT (MR IG SMITH)
THE HEAD: FINANCIAL GOVERNANCE AND ACCOUNTING (MR A HARDIEN)
THE CHIEF FINANCIAL OFFICER (MR A GILDENHUYS)
THE HEAD: OFFICE OF THE FINANCE MINISTRY (ADV E PRETORIUS)
THE SENIOR MANAGER: BUSINESS INFORMATION AND DATA MANAGEMENT (MR PP PIENAAR)
THE SENIOR MANAGER: FINANCIAL GOVERNANCE (MR B VINK)
THE SENIOR MANAGER: FISCAL POLICY (MR H MALILA) (PRO TEM)
THE SENIOR MANAGER: INFRASTRUCTURE (MS JD GANTANA) (PRO TEM)
THE SENIOR MANAGER: LOCAL GOVERNMENT ACCOUNTING (MR A HARDIEN) (PRO TEM)
THE SENIOR MANAGER: LOCAL GOVERNMENT BUDGET OFFICE (MR ML BOOYSEN)
THE SENIOR MANAGER: LOCAL GOVERNMENT REVENUE AND EXPENDITURE (GROUP ONE) (MS CUPIDO) (ACTING)
THE SENIOR MANAGER: LOCAL GOVERNMENT REVENUE AND EXPENDITURE (GROUP TWO) (MR M SIGABI)
THE SENIOR MANAGER: LOCAL GOVERNMENT SUPPLY CHAIN MANAGEMENT (MR TL RADEBE)
THE SENIOR MANAGER: PROVINCIAL GOVERNMENT ACCOUNTING (MR A REDDY)
THE SENIOR MANAGER: PROVINCIAL GOVERNMENT BUDGET OFFICE (MS M KORSTEN)
THE SENIOR MANAGER: PROVINCIAL GOVERNMENT FINANCE (EXPENDITURE MANAGEMENT) (MS A PICK)
THE SENIOR MANAGER: PROVINCIAL GOVERNMENT SUPPLY CHAIN MANAGEMENT (MS N EBRAHIM)
THE SENIOR MANAGER: STRATEGIC AND OPERATIONAL MANAGEMENT SUPPORT (MS A SMIT)
THE SENIOR MANAGER: SUPPORTING AND INTERLINKED FINANCIAL SYSTEMS (MR A BASTIAANSE)

THE PROVINCIAL AUDITOR

MASTER RECORDS OFFICIAL: BUSINESS INFORMATION AND DATA MANAGEMENT

THE HEAD OF DEPARTMENT: LOCAL GOVERNMENT

THE CHIEF DIRECTOR: LOCAL GOVERNMENT BUDGET ANALYSIS – NATIONAL TREASURY (MR J HATTINGH)

THE CHIEF DIRECTOR: MFMA IMPLEMENTATION – NATIONAL TREASURY (MR TV PILLAY)

ACCOUNTING STANDARDS BOARD (ASB) – DISCUSSION PAPER 10 ON ACCOUNTING FOR LIVING AND NON-LIVING RESOURCES (DP 10)

1. PURPOSE

1.1 The purpose of this circular is to request municipalities and municipal entities to submit comments on ***Discussion Paper 10*** on ***Accounting for Living and Non-living Resources (Discussion paper 10).***

This can be accessed via the following link http://www.asb.co.za.

2. BACKGROUND

2.1 According to the Accounting Standards Board, accounting for living resources (i.e. plants and animals) and that of non-living resources (i.e. land, water, minerals, oil and gas etc.) may have a far reaching effect on financial reporting in the public sector. This is due to some entities holding such resources in order to meet their mandate, while other entities act as custodians of such resources for the benefit of present and future generations.

2.2 There is limited guidance within the GRAP standards on how to account for the unique characteristics and various uses of living and non-living resources.

3. OBJECTIVE

3.1 The objective of discussion paper 10 is to solicit comments from stakeholders on key issues regarding the proposed principles, so that the Board can develop guidance for the accounting of living and non-living resources.

4. REQUEST

4.1 Municipalities are invited to submit comments as follows:

a) Answer the **24 specific questions** contained within the discussion paper, and **provide reasons.**

b) State whether or not the discussion paper is **supported in its entirety**, supplementing such opinion with detailed comments and **references** to specific paragraphs of the discussion paper to which the comment relates.

4.2 The Local Government Accounting unit of Provincial Treasury would like to emphasise the following paragraphs of the discussion paper for consideration:

a) **Paragraph 2.3** explains what natural resources are.

b) **Paragraph 2.13** proposes definitions for living and non-living resources.

c) **Paragraph 2.19** explains what minerals, oil and gas, as well as non-regenerative resources are.

d) **Paragraph 2.32 to 2.34** explains under which circumstances minerals, oil and gas, as well as non-regenerative resources will meet the definition of non-living resource.

e) **Paragraph 2.37** explains under which circumstances land will meet the definition of non-living resource.

f) **Paragraph 2.43** explains under which circumstances water will meet the definition of non-living resource.

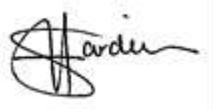
g) **Paragraph 4.1 to 4.53** explains how to apply the definition of an asset to living and non-living resources in terms of key points such as 'past event', 'future economic benefits and service potential', as well as 'municipal control'.

h) **Paragraph 4.54 to 4.65** explains how living and non-living resources should be accounted for if they cannot be separated from the land.

4.3 Comments are invited by the ASB until Friday 16th January 2015. However, it would be appreciated if comments can be submitted to Provincial Treasury by **Friday 9th January 2015** for consolidation.

4.4 All comments may be submitted to PT.helpme@westerncape.gov.za.

5. Your co-operation is highly appreciated.



MR A HARDIEN
PROVINCIAL ACCOUNTANT GENERAL
DATE: 29 October 2014

Comments due by 16 January 2015

DISCUSSION PAPER 10

ACCOUNTING FOR LIVING AND NON-LIVING RESOURCES

Issued by the
Accounting Standards Board

July 2014

Commenting on the Discussion Paper

The Discussion Paper, *Accounting for Living and Non-living Resources,* outlines the Board's research, and proposals on living and non-living resources. As no comprehensive guidance exists on the accounting for living and non-living resources in the Standards of GRAP, the comments received on this Discussion Paper will be used to develop accounting principles for living and non-living resources.

This Discussion Paper was prepared and published by the Board. Comment received will be used to inform the Board's future work on living and non-living resources.

Comment should be submitted in writing so as to be received by **16 January 2015**. Email responses are preferred. Unless respondents to the Invitation to Comment specifically request confidentiality, their comment is a matter of public record. Comment should be addressed to:

The Chief Executive Officer

Accounting Standards Board

P.O. Box 74219

Lynnwood Ridge 0040

Fax: +2712 348 4150

Email address: info@asb.co.za

Background and purpose of this Discussion Paper

Entities hold a wide range of resources that include living resources such as animals and plants, and non-living resources, such as water, land and minerals, oil and gas, and other non-regenerative natural resources. Some entities hold these living and non-living resources to meet their mandate, while others act as a custodian for the benefit of present and future generations. As a result, accounting for living and non-living resources potentially has a far-reaching effect on financial reporting in the public sector.

This Discussion Paper sets out proposed principles on accounting for living and non-living resources, and request respondents' views on these proposals. The purpose of the Discussion Paper is to receive input on the key issues and accounting proposals so that the Board can develop accounting guidance for living and non-living resources. Depending on the comment received, guidance could vary from the issuing of a separate pronouncement to amending existing Standards of GRAP.

Due process and timetable

As the Board intends to use the comment received on the discussions and views outlined in this Discussion Paper to inform its future work, it is appropriate to follow a due process. Preparers, users, auditors, standard-setters and other parties with an interest in public sector financial reporting are therefore requested to comment on the Discussion Paper.

Request for comment

Comment on this Discussion Paper must be submitted by **16 January 2015**. The Board would particularly welcome respondents' views on the specific issues outlined in each section of the Discussion Paper. Respondents are also invited to comment on other aspects of the Discussion Paper by explaining the issue and identifying the relevant paragraphs, Standards of GRAP or other Accounting Standards, where appropriate.

The basis for accepting or rejecting significant comments will be published on the Board's website.

Contents

Section 1: Background and purpose of this Discussion Paper

1.1 Entities hold a wide range of living and non-living resources. These include resources such as animals, plants, water and minerals. While the role of some entities is to hold these living and non-living resources in meeting their service delivery objectives, other entities hold these resources as custodians for the benefit of present and future generations. A natural resource may also be associated with an entity without it being held for any specific purpose, e.g. animals that roam freely on land that is controlled by the entity.

1.2 At present, limited guidance exists within the Standards of GRAP to account for living and non-living resources. For example, the Standard of GRAP on *Agriculture* (GRAP 27) prescribes accounting requirements for living animals and plants that are used in an agricultural activity. No other Standard of GRAP deals specifically with the accounting for these resources.

1.3 Based on the nature and diverse uses of living and non-living resources in the public sector, application of the existing guidance in the Standards of GRAP may be difficult as the recognition and measurement principles do not take into account the unique characteristics of these resources.

1.4 Apart from the lack of clear guidance, entities are often unable to appropriately account for living and non-living resources because they cannot:

- Identify the level at which living and non-living resources should be recognised, particularly when they are managed together, e.g. a conservation area that consists of plants, animals, land and a natural body of water.
- Quantify resources accurately, e.g. counting wild animals in a conservation area.
- Measure living and non-living resources appropriately, as the measurement methods that are currently outlined in the Standards of GRAP may be inappropriate for the nature or purpose for which these resources are held.

1.5 As existing Standards of GRAP do not consider the unique characteristics of living and non-living resources and do not specifically address their accounting requirements, these resources are in many instances inappropriately quantified, recognised, measured, disclosed or otherwise reported on by entities in their financial statements.

1.6 Divergent practice exists on the application of the principles in existing Standards of GRAP in accounting for living and non-living resources. Some entities have applied the requirements in the Standard of GRAP on *Property, Plant and Equipment* (GRAP 17) to account for living animals that are held for the provision or supply of goods and/or services. Others have applied the Standard of GRAP on *Heritage Assets* (GRAP 103) to account for certain plant species to ensure that these are preserved for present and future generations. GRAP 27 has also been applied to account for animals even though the entity is not actively involved in the management of the biological transformation.

1.7 A review conducted of the financial statements of a number of entities to consider how they currently account, recognise, measure, present or disclose information on living and non-living resources in their financial statements illustrates this diversity. The results of the review are:

Entity	**Type of natural resource and purpose for which it is held**	**Treatment**
South African National Bio Diversity Institute ("SANBI")	Type: Plants and animals. Purpose: Manage, control and maintain all national botanical gardens.	• The financial statements are prepared in accordance with Standards of GRAP. • Living and non-living resources are not recognised in the financial statements. • A narrative description is provided in the entity's accounting policy about the nature of the living and non-living resources, and the reason why they are not recognised (i.e. that the entity cannot count the biological assets due to their nature).
South African National Parks ("SANParks")	Type: Plants and animals. Purpose: To develop, manage and promote a system of national parks that represent biodiversity and heritage assets.	• The financial statements are prepared in accordance with Standards of GRAP. • Living and non-living resources are not recognised in the financial statements. • Non-financial disclosures, such as the estimated quantities per species, are provided in a conservation report, which is outside of the financial statements but within the annual report.
National Research Foundation which	Type: Plants and	• The financial statements are prepared in

comprise the consolidated financial statements of the following entities: • National Zoological Gardens of SA (NZG) • Institute of Aquatic Biodiversity (SAIAB) • SA Environmental Observation Network (SAEON)	animals. Purpose of NZG: Conduct high quality research to generate knowledge for the conservation of endangered species and their ecosystems. Purpose of SAIAB: Conduct scientific research to get knowledge and understanding of the biodiversity and functioning of ecosystems Purpose of SAEON: Research and education platform for long-term studies of ecosystems consisting of six geographical observatories, field stations and research sites.	accordance with Standards of GRAP. • The NRF's financial statements noted the following regarding biological assets: Biological assets comprise zoological animals which have not been included as an asset on the statement of financial position. The reason is that the essential recognition criteria of measurement for recognising assets cannot be met. Most zoological animals are received as donations, transfers from other zoos or from births. As a result, they do not have a cost price. It is considered impracticable to assign a fair value to the animals for a variety of reasons. These include considerations such as the lack of a market for the majority of the animals because they are not commodities, the lack of an active market, as well as restrictions on trade of exotic animals that preclude the determination of a fair value. The age, health, bloodline and other related issues will affect the arbitrary value that may be determined for such animals. It is therefore considered impractical to determine a reliable value as a result of the variables involved. On the basis that many species cannot therefore be valued and that a reliable value cannot be obtained for other species, it was considered that any assessment of value would be misleading to the users of the financial statements. This assessment is considered to be a significant judgment by management.

		• Disclosure of the type of animals and their respective quantities are provided in the notes to the financial statements.
Cape Nature	Type: Plants and animals. Purpose: To establish biodiversity conservation as a foundation of a sustainable economy creating access, benefits and opportunities for all.	• The financial statements are prepared in accordance with Standards of GRAP. • Living and non-living resources are not recognised in the financial statements. • The annual report states that a separate State of Biodiversity Report reports on the conservation status of all animals and plants.
City of Tshwane	Type: Plants and animals. Purpose: Nursery and game reserves held for recreational activities.	• The financial statements are prepared in accordance with Standards of GRAP. • Game is recognised as biological assets as part of property, plant and equipment at fair value less point-of-sale costs. The fair value of livestock is determined based on market prices of livestock of similar age, breed and genetic merit. • Plants (nursery) are recognised as inventory measured at the lower of cost or net realisable value.
Mangaung Metropolitan	Type: Plants and animals. Purpose: For conservation of endangered species as well as for education purposes.	• The financial statements are prepared in accordance with Standards of GRAP. • Living and non-living resources are recognised as heritage assets using the cost model.
Rand Water	Type: Water held in reservoirs, dams, pipelines and other	• The financial statements are prepared in terms of Statements of GAAP. • The financial statements state that water

	man-made storage facilities. Purpose: Held for consumption and re-sale.	held in reservoirs and pipelines are recognised as inventory at the lower of cost and net realisable value, determined on a weighted average cost.
Amatola Water Board	Type: Water held in reservoirs, dams, pipelines and other man-made storage facilities Purpose: Held for consumption and re-sale.	• The financial statements are prepared in terms of Statements of GAAP. • The financial statements explain that no value is included in the annual figures for water held in reservoirs and pipelines as this value has been calculated as insignificant.
Bloemwater	Type: Water held in reservoirs, dams, pipelines and other man-made storage facilities Purpose: Held for consumption and re-sale.	• Financial statements are prepared in accordance with IFRSs. • Water inventory held in reservoirs and pipelines are recognised as inventory at the lower of cost and net realisable value, determined on a weighted average cost. • No recognition of water held in dams or rivers as this is under the control of DWAF.
Department of Water Affairs (DWAF) and Water Trading Entity (WTE)	Type: Natural inland water courses and other water bodies. Purpose: To provide water and sanitation services.	• DWAF - The financial statements are prepared in accordance with the modified cash basis of accounting and non-living resources are therefore not recognised in the financial statements. No additional note disclosures are provided for water inventory in the financial statements. • WTE – Financial statements are prepared in accordance with the Standards of GRAP but no recognition of water as inventory or additional note disclosures appear in the financial statements.

Department of Agriculture, Forestry and Fisheries	Type: Biological assets such as plantations and forests. Purpose: Ensure the sustainable management and efficient use of living and non-living resources.	• The financial statements are prepared in accordance with the modified cash basis of accounting. • Biological assets are disclosed in an annexure to the financial statements. The accounting policy note states that plantations are measured at standing value. The standing value is the value of the standing, marketable timber that is present in a stand at the age when the value is computed. The standing value is determined with reference to the market volume, obtained from a growth model or yield table, which is applicable to a specific species, site and cultural regime. The Forestry Branch uses the Computerised Plantation Analysis System (COMPAS) for managing the growing stock database.
Department of Rural Development and Land Affairs	Type: Land, mineral and similar non-regenera-tive resources. Purpose: To provide an equitable and sustainable land dispensation that results in social economic development for all South Africans.	• The financial statements are prepared in accordance with the modified cash basis of accounting. • The "tangible capital assets" financial statement disclosure note has land and minerals as two separate classes of capital assets. • The note further states that the actual value of state land cannot be determined for inclusion in the disclosure note.
North West Parks and Tourism Board	Type: Purpose: Conservation of fauna	• Fauna is not recognised in the financial statements. The main source of revenue is from game hunting.

	and flora, the development and promotion of tourism and hospitality training in the province.	• Game is recognised in the financial statements as an asset based on the requirements in GRAP 27. Game is valued using annual published average auction prices obtained from the market.

1.8 The Board intends to develop accounting guidance to enable preparers to report on living and non-living resources. The purpose is to provide relevant and useful information to the users of the financial statements for accountability and decision-making. In developing the proposals in this Discussion Paper, the accounting requirements and guidance in existing Standards of GRAP have been considered.

1.9 The Board will use the input received from stakeholders on the key issues and accounting proposals set out in this Discussion Paper to develop guidance on accounting for living and non-living resources. This will provide useful and relevant information to the users of financial statements. This guidance could vary and involve various actions, from the issuing of a separate pronouncement to amending existing Standards of GRAP.

1.10 This Discussion Paper considers the following areas in proposing accounting requirements for living and non-living resources:

- Defining a living and non-living resource.
- Considering when control over living and non-living resources exists.
- Considering the recognition and measurement of living and non-living resources.
- Proposing presentation and disclosure requirements for living and non-living resources that are recognised by an entity.

Section 2: Defining living and non-living resources

Introduction

2.1 Entities are mandated to promote effective management of revenue, expenditure, assets and liabilities. Entities may be required to preserve and manage the country's living and non-living resources for the benefit of present and future generations. This requirement is normally enabled through legislation, government policy or through similar means which deals with, amongst others, the formation of these entities and their specific responsibilities in fulfilling their mandate and service delivery objectives.

2.2 As the focus of this Discussion Paper is to formulate accounting requirements for living and non-living resources, it is important to understand what is meant by the term "living and non-living resources". This section considers various explanations from existing literature before proposing a definition for living and non-living resources.

Defining living and non-living resources

Definitions in existing literature

2.3 Various definitions of living and non-living resources were reviewed to obtain an understanding of what constitutes a natural resource. The following were found:

- The natural wealth of a country, consisting of land, forests, mineral deposits, water, etc (dictionary.com).
- Naturally occurring materials such as coal, fertile land, etc. that can be used by man. (Collins dictionary)
- Natural resources occur naturally within environments that exist relatively undisturbed by humankind, in a natural form. A natural resource is often characterised by amounts of biodiversity and geo-diversity existent in various ecosystems. (Wikipedia)
- Natural resources are naturally occurring substances that are considered valuable in their relatively unmodified (natural) form. A natural resource's value rests in the amount of the material available and the demand for it. Mining, petroleum extraction, fishing, hunting, and forestry are generally considered natural-resource industries, while agriculture is not. (http://rashidfaridi.wordpress.com/2008/02/26/natural-resources-definition-and-classification).
- Reserves refer to the quantity of minerals, oil and gas, that is estimated to be economically recoverable from the earth. Resources refer to the quantity of minerals or oil and gas that have been identified during exploration, but are not yet capable of being classified as a reserve (IASB's Discussion Paper on *Extractive Industries* issued in 2010).

2.4 It can thus be concluded that common types of resources include plants, animals, land, water and minerals or oil and gas.

2.5 Natural resources seem to entail naturally occurring substances or organisms that possess unique characteristics which distinguish them from other resources, e.g. they are relatively unmodified, occur naturally and are relatively undisturbed by humankind.

2.6 In considering the features of natural resources, two broad types of resources can be identified, i.e. those that are living (living resources), and those that are non-living (non-living resources).

Proposed definitions

2.7 In proposing definitions for living and non-living resources consideration has been given to the meaning of "natural". The term "natural" is defined as "existing in or formed by nature". If a living animal or plant is taken away from its natural environment, or removed from it, then it could be argued that the animal or plant no longer exists in "nature" and would fall outside the scope of this Discussion Paper. Therefore, so as to not exclude living animals and plants that are held in places like zoos, research and breeding facilities, nurseries etc. from the scope of this Discussion Paper, the Board proposes that "natural" should not be included in the definition of "living resources".

2.8 The term "natural" is, however appropriate when reference is made to non-living resources because it refers to the state or condition in which the resource is originally found, i.e. within an environment that is undisturbed by humankind. However, as soon as the non-living resource is changed, modified or transformed from its original form or structure, either through development or as a result of human action or interference, it will no longer occur in its natural environment or natural state.

2.9 Living resources could also include human resources. The Standard of GRAP on *Intangible Assets* (GRAP 31) explains that even though an entity may have a team of skilled staff and may be able to identify incremental staff skills leading to future economic benefits or service potential from training, the entity usually has insufficient control over the staff.

2.10 Other examples of living resources include sunlight and air, but there is no control over these resources and it therefore falls outside the scope of this Discussion Paper.

2.11 Entities may also have sovereign powers such as the power to tax or to issue licenses and to access, restrict or deny access to the benefits embodied in intangible resources like the electromagnetic spectrum. Only when an entity exercises its power, and rights exist to receive resources in the form or service potential or future economic benefits, will the definition of an asset be met.

2.12 Based on these observations, the Board proposes that the discussion of living resources for purposes of this Discussion Paper should be limited to animals and plants.

2.13 Following the various definition explanations and conclusions in the previous paragraphs, the following definitions are proposed:

***<u>Living resources</u>* are resources that comprise elements that undergo biological transformation.**

***<u>Non-living resources</u>* are resources, other than living resources that occur naturally, and are not created or modified by humankind.**

Issue 1:

Do you agree that, in considering the types of natural resources in the public sector, these resources should be categorised as either living resources or non-living resources?

If not, please propose an alternative along with your reasons for this suggestion?

Issue 2:

Do you agree with the proposed definitions in paragraph 2.10 for:

(a) Living resources, and

(b) Non-living resources?

If not, how would you define these terms?

Living resources

2.14 In the public sector, typical living resources are animals and plants held for:

- agricultural activities;
- delivering or the provision of goods and/or services to specific recipients e.g. horses and dogs kept by the police force, defence force and customs;
- recreational purposes e.g. parks and specific demarcated recreational areas;
- research, conservation and other activities undertaken in the public interest, e.g. wildlife parks, zoos and botanical gardens; and/or
- a combination of one or more of the above activities.

2.15 The Government Financial Statistics (GFS) Manual makes reference to cultivated assets. The GFS manual indicates that cultivated assets consists of animals and plants that are used repeatedly or continuously for more than one year to produce goods or services, for example breeding stocks, dairy cattle, draft animals, and animals used for transportation, wool production, racing and entertainment. Plants include trees, vines and scrubs cultivated for fruits, nuts, sap, resin, bark and leaf products. However, the GFS manual clarifies that only animals and plants cultivated under the direct control, responsibility and management of government units are cultivated assets – all other animals and plants are either classified as "non-produced assets" or are not economic assets.

2.16 In applying the proposed definition of living resource to the examples above, it can be concluded these are typical examples of living resources that are found in the public sector that meet the definition of living resources.

Non-living resources

2.17 Based on the proposed definition of non-living resources, three categories of non-living resources can be identified: (a) minerals, oil and gas, and other non-regenerative natural resources, (b) water, and (c) land.

2.18 The next discussion elaborates on these three categories and concludes with the extent to which the proposed definition of a non-living resource is met.

Minerals, oil and gas, and other non-regenerative natural resources

2.19 The IASB's Discussion Paper on *Extractive Industries* issued in 2010 addresses financial reporting issues associated with exploring for and finding of minerals, oil and natural gas deposits. The Discussion Paper notes that minerals, oil and natural gas are non-regenerative natural resources, which mean that they cannot be replaced in their original state after extraction. Minerals are naturally occurring materials in, or on the earth's crust that include metallic ores (such as copper, gold, silver, iron, nickel, lead and zinc), other industrial minerals (non-metallic minerals and aggregates), gemstones, uranium and fossilised organic material (coal). Oil and natural gas, often collectively referred to as petroleum, can be defined as a naturally occurring mixture consisting of hydrocarbons in gaseous, liquid or solid phase (such as tar sands or oil shale).

2.20 The Government Financial Statistics (GFS) Manual classifies "non-produced assets" as a category of non-financial assets. Non-produced assets consist of tangible, naturally occurring assets, amongst others, over which ownership rights are enforced. In terms of the GFS classification, naturally occurring assets include land, subsoil assets and other naturally occurring assets.

2.21 The GFS explains that subsoil assets are described as proven reserves of oil, natural gas, coal, metallic minerals reserves (e.g. ferrous, and precious metal ores) and non-metallic mineral reserves (e.g. stone, quarries, clay, natural gem stones, asphalt etc.). The deposits may be located on or below the earth's surface, including deposits under the sea, but they must be economically exploitable.

2.22 This Discussion Paper will collectively refer to these non-living resources as minerals, oil and gas, and other non-regenerative natural resources.

Extracted and un-extracted minerals, *oil and gas, and other non-regenerative natural resources*

2.23 There is a common sequence of activities undertaken by entities engaged in extractive activities. These usually start with the acquisition of legal rights to explore a defined area, where after exploration and evaluation commences. The information gained from these activities generates a better understanding of whether minerals or oil and gas deposits exists, and if so, the characteristics of that deposit and the prospects for economically extracting minerals, oil and gas, and other non-regenerative natural resources from the deposit. The exploration will provide more information over time, thereby reducing geological and economic uncertainty. Exploration results may either increase or reduce the probability that there are economically extractable reserves.

2.24 In terms of the Minerals and Petroleum Resource Development Act, 2002, Government exercises sovereignty over all the mineral and petroleum resources within South Africa, and has custodianship of the nation's mineral and petroleum resources. In terms of this Act, the Minister of Minerals and Energy may grant, issue, refuse, control, administer and manage any reconnaissance permission, prospecting right, permission to remove, mining right, mining permit, retention permit, technical co-operation permit, reconnaissance permit, exploration right and production right and consider the fee payable.

2.25 An entity that has received or acquired a prospecting right, mining right, exploration right or production right, may prospect, mine, explore or produce for his or her own account on or under that land for the minerals, oil and gas, and other non-regenerative natural resources for which such right has been granted. The entity may also remove and dispose any such deposits that were found during the course of prospecting, mining or exploration.

2.26 The Minerals and Petroleum Resource Development Act also prohibits the issue of a prospecting or mining right in respect of certain areas, such as land comprising a residential area, a public road, railway or cemetery, or land used for public or governmental purposes.

2.27 The Minerals and Petroleum Resource Development Act also determines that the Minister of Minerals and Energy may cause an investigation to be conducted on any land to establish if any mineral or geological formation occurs in, on, or under such land, and if so, establish the nature thereof. The Minister must then compensate the owner of the land in question for any loss or damage is caused during the investigation. The Act also grants the Minister the power to expropriate land or property for purposes of prospecting or mining, and pay compensation in respect thereof.

2.28 The IASB's Discussion Paper concluded that uncertainties about the quantities and other attributes of the mineral and oil or gas that exist and that can be economically extracted, change significantly. Uncertainty remains even during extraction, but the uncertainty during early stage exploration is much greater than during the extraction stage.

2.29 The GFS manual also requires that minerals, oil and gas, and other non-regenerative natural resource deposits must be economically exploitable before they can be accounted for. It also requires that the minerals, oil and gas, and other non-regenerative natural resource deposits must be separable from the land on which it is found before it is accounted for in the financial statements.

2.30 Based on the observations noted above and due to the uncertainty that exists around the degree of geological estimations that need to be made about the quantity of un-extracted minerals, oil and gas, and other non-regenerative natural resources (i.e. those resources that are not yet mined or brought to the surface following, for example, drilling), un-extracted minerals, oil and gas, and other non-regenerative natural resources are not measured in an entity's financial statements.

Extent to which minerals, oil and gas and other non-regenerative natural resources meet the definition of non-living resources

2.31 A clear distinction can therefore be made between extracted minerals, oil and gas, and other non-regenerative natural resources, and un-extracted minerals, oil and gas, and other non-regenerative natural resources (i.e. those resources that are not yet mined or brought to the surface following, for example, drilling).

2.32 In applying the definition of non-living resources to minerals, oil and gas, and other non-regenerative natural resources, it can be concluded that extracted minerals do not meet this definition. The reason for this is that once the minerals, oil and gas, and other non-regenerative natural resources are extracted, for example through mining or drilling, they no longer occur naturally in the environment or in their natural state. As soon as these resources as extracted, they are modified or transformed from their original form or structure.

2.33 As noted in the IASB's Discussion Paper, once these minerals, oil and gas, and other non-regenerative natural resources are extracted, they are likely to meet the definition of inventory as defined in the Standard of GRAP on *Inventories* (GRAP 12). For an asset to be recognised in the financial statements, the entity should be able to demonstrate that it can exclude or regulate the access of others to the benefits of the asset and measure the asset reliably.

2.34 Based on these observations, and because guidance is already available to account for extracted minerals, oil and gas, and other non-regenerative natural resources, the development of accounting guidance to account for extracted minerals, oil and gas, and other non-regenerative natural resources are outside the scope of this Discussion Paper.

Issue 3:

Do you agree with the Board's view that extracted minerals, oil and gas, and other non-regenerative natural resources do not meet the definition of non-living resources and that guidance is already available to account for this resource?

If not, please explain your response.

2.35 Where an entity has identified through exploration that land is likely to contain certain deposits of minerals, oil and gas, and other non-regenerative natural resources, the un-extracted deposits are physically attached to the land before extraction commences. In applying the definition of a non-living resource to un-extracted minerals, oil and gas, and other non-regenerative natural resources, it can be concluded that these resources meet this definition because these resources occur naturally in their original state and have not been modified or transformed from its original form. As such, un-extracted minerals, oil and gas, and other non-regenerative natural resources are within the scope of this Discussion Paper. The next section of the Discussion Paper will consider to what extent the principles in existing Standards of GRAP can be applied to account for un-extracted minerals, oil and gas, and other non-regenerative natural resources.

Issue 4:

Do you agree with the Board's view that un-extracted minerals, oil and gas, and other non-regenerative natural resources meet the definition of non-living resources?

If not, please explain your response.

Land

2.36 In applying the definition of non-living resources to land, it can be concluded that land will meet this definition because it occurs naturally and is not created or modified by humankind.

2.37 However, if a building or other structure is constructed on the land, then the land will have been modified and will therefore no longer meet the definition of a non-living resource. The entity should, however, consider the extent to which the land has been modified in relation to the total land area. If only an insignificant portion of the land is modified, management can still conclude that the land meets the definition of non-living resources if the modification is insignificant in relation to the total land area. For example, an information office and walk ways constructed in a conservation area may be in insignificant in relation to the total land area.

2.38 Consideration will be given in this Discussion Paper to accounting for land that meets the definition of a non-living resource. The next section will consider to what extent the principles in existing Standards of GRAP can be applied to account for land.

Issue 5:

In applying the definition of a non-living resource to land, it can be concluded that where land has not been modified or transformed by humankind and occurs in its original state, it meets the definition of a non-living resource.

Do you agree with this conclusion?

If not, please explain your response.

Water

2.39 Water can be found in various forms, such as rivers, dams, streams, canals, reservoirs, lakes, estuaries, boreholes, natural fountains, springs, pipelines, and even in the sea. However, in determining whether water meets the definition of a non-living resource, the structure in which the water is kept, is not relevant.

2.40 In terms of the Water Services Act, the Department of Water Affairs (DWAF) regulates all water held in rivers, dams, streams, canals, lakes, natural fountains and springs. The DWAF issues licences to entities that allow them to extract water from these sources. Without a licence an entity is not allowed to extract any water from these resources.

2.41 The GFS manual explains that land is the ground itself and, where appropriate, includes the associated surface water that, in many instances, cannot be physically separated from the land. Surface water includes any reservoirs, lakes, rivers and other inland water over which ownership rights, in terms of an entity's ownership rights over the land, can be exercised. The GFS also notes that, to the extent that surface water cannot be physically separated from the land, its value should be included in determining the value of the land.

Extent to which water resources meets the definition of non-living resources

2.42 The structure is which water is kept is not the decisive indicator to determine whether water meets the definition of a non-living resource, but rather whether the water is found in its original state and/or condition.

2.43 In applying the definition of non-living resources to water, it can be concluded that as soon as water is changed, modified or transformed from its original, natural condition, for example where it is extracted in terms of rights granted to an entity, it no longer meets the definition of non-living resources as it no longer occurs naturally or in its natural environment.

2.44 Water resources that have been changed, modified or transformed from its natural condition do not meet the definition of a non-living resource, and these resources are not within the scope of this Discussion Paper.

2.45 An entity, however, needs to apply judgement to determine at what point the water will be changed, modified or transformed from its natural condition.

Issue 6:

Do you agree with the Board's view that water resources that are found in its natural state meet the definition of non-living resources, and that an entity needs to apply judgement to determine at what point the resource will be changed, modified or transformed its natural condition?

If not, please explain your response.

2.46 As soon as water resource is changed, modified or transformed from its natural condition, for example where it is extracted in terms of a licence granted to an entity, the water resource is likely to meet the definition of inventory as defined in the Standard of GRAP on *Inventories* (GRAP 12). This is because the entity that has acquired a licence to extract water is likely to store it in a controlled area such as in pipelines reservoirs and other man-made structures. However, in applying the principles in GRAP 12, the extracted water needs to meet the definition of an asset, i.e. a resource that is controlled by the entity as a result of a past event and from which future economic benefits or service potential is likely to flow. For an asset to be recognised in the financial statements, the entity should be able to demonstrate that it can exclude or regulate the access of others to the water and that it can measure the asset reliably.

Issue 7:

Do you agree with the Board's view that water that has been changed, modified or transformed from its original natural state do not meet the definition of non-living resources and that guidance is already available to account for it?

If not, please explain your response.

Section 3: Existing accounting guidance that is available to account for living and non-living resources

Introduction

3.1 The previous section proposed definitions for living and non-living resources and identified various resources that meet these definitions. It was concluded that, based on the unique features and characteristics of living and non-living resources, accounting guidance should be developed for living resources, as well as for land, water that is found in its natural state and/or condition and un-extracted minerals, oil and gas, and other non-regenerative natural resources that meet the definition of non-living resources.

3.2 The previous section also concluded that existing guidance is already available to account for extracted minerals, oil and gas, and other non-regenerative natural resources and water where it was changed, modified or transformed from its original natural state. As such, these resources are not within the scope of the Discussion Paper and are not considered in the remainder of this Discussion Paper.

Existing accounting requirements in Standards of GRAP

3.3 Some Standards of GRAP prescribe accounting principles for the recognition, initial and subsequent measurement, derecognition, presentation and disclosure of certain types of living and non-living resources.

The Standard of GRAP on Inventories (GRAP 12)

3.4 GRAP 12 defines inventory as assets:

(a) in the form of materials or supplies to be consumed in the production process;

(b) in the form of materials or supplies to be consumed or distributed in the rendering of services;

(c) held for sale or distribution in the ordinary course of operations; or

(d) in the process of production for sale or distribution.

3.5 Non-living resources, such as land, that are held for sale fall within the scope of this Standard. Living resources, such as the off-spring of zoo animals that an entity intends to sell, may also fall within the scope of this Standard. However, if the zoo intends to keep the off-spring, it may rather meet the definition of property, plant or equipment.

The Standard of GRAP on Investment Property (GRAP 16)

3.6 GRAP 16 provides guidance on land that is held for long-term capital appreciation or land that is held for a currently undetermined future use. If an entity, for example, controls land for which future use has not yet been determined it falls within the scope of this Standard.

3.7 Land on which minerals, oil and gas, and other non-regenerative natural resources were discovered following exploration is also likely to meet the definition of investment property if the entity intends to hold the land for rental to allow others to undertake mining activities to the extent that all the legislative requirements around extraction have been met. Where the entity, however, intends to undertake mining activities itself, the land is rather likely to meet the definition of property, plant and equipment.

The Standard of GRAP on Property, Plant and Equipment (GRAP 17)

3.8 GRAP 17 provides guidance on assets that are held for use in the production or supply of goods and services, for rental to others or for administrative purposes. Non-living resources, such as land, or land that is currently explored to determine if it contains minerals, oil and gas, and other non-regenerative natural resources, are likely to meet the definition and recognition criteria in this Standard.

The Standard of GRAP on Agriculture (GRAP 27)

3.9 GRAP 27 provides guidance to account for biological assets and agricultural produce up to the point of harvest. This Standard is applied where an entity is actively involved in the biological transformation of the asset and when the definition of an agricultural activity is met. For example, plants held in nurseries may be within the scope of GRAP 27 where an entity actively manages them and enhances conditions such as moisture, temperature, fertility and light to ensure effective growth.

The Standard of GRAP on Heritage Assets (GRAP 103)

3.10 GRAP 103 provides guidance on accounting for heritage assets. Many entities may be required in terms of their mandate to preserve and manage living and/or non-living resources for the benefit of current and future generations, for example the Kruger National Park. Others may specifically acquire a piece on land to ensure that its contents, for example rare flower bulbs, are preserved for current and future generations.

3.11 An entity may also preserve certain living resources, such as living specimens of plants, for example certain male specimens of cycads that are preserved in botanical gardens for present and future generations. GRAP 103, however, specifically excludes living animals and plants and requires entities to consider other Standards of GRAP in accounting for living heritage assets namely GRAP 27.

3.12 Non-living resources, such as land that is to be preserved for present and future generations are within the scope of GRAP 103.

Existing accounting guidance that can be applied in accounting for living and non-living resources

Living resources

3.13 The principles in GRAP 12 can be applied to account for those living resources that are held for sale or distribution in the ordinary course of operations, such as the off-spring of animals where management was not involved in the biological transformation.

3.14 GRAP 12 will also apply where an entity has living animals that it intends to use within its ordinary course of operations, but which is expected to be realised within twelve months, for example mice that is kept as food for other living animals. As these living resources are expected to be realised within twelve months, the measurement principles in GRAP 12 will be appropriate to account for these resources, as significant changes in the resource's life cycle is unlikely to occur with the twelve month period.

3.15 However, the concepts prescribed in GRAP 16 and GRAP 17, particularly the use of historic cost and depreciation, may not be appropriate for living resources such as plants and animals since they undergo biological transformation without an entity being actively involved in the biological transformation. GRAP 103 also does not apply to living resources as its scope specifically excludes consideration of such resources.

3.16 Where an entity is actively involved in managing the biological transformation of an animal or plant that meets the definition of an agricultural activity the principles in GRAP 27 should be applied to account for these living resources, for example, animals held in breeding facilities, plants held in nurseries or plants that are cultivated in greenhouses.

3.17 The principles in GRAP 23 on *Revenue from Non-exchange Transactions (Taxes and Transfer)* can be applied to account for living resources on initial recognition where it was acquired through no or nominal consideration, for example where an off-spring is born.

Issue 8:

Do you agree that the principles in existing Standards of GRAP can be applied in accounting for the following living resources:

(a) GRAP 12, where living resources are held for sale or distribution in the ordinary course of operations; and

(b) GRAP 27, where living resources meets the definition of agricultural activity and an entity is actively involved in managing the biological transformation of the resource?

If not, please explain your response.

Non-living resources

3.18 From the discussion above, it can be concluded that the principles in GRAP 12, GRAP 16, GRAP 17 and GRAP 103 can be applied to account for land, depending on its intended use. In determining its intended use, management needs to apply judgement.

3.19 For example, if an entity's mandate is to preserve and manage land for the benefit of current and future generations, for example the Kirstenbosch botanical garden, the principles in GRAP 103 should be applied in accounting for such land. Where land is under the control of an entity, but its future use has not yet been determined, the principles in GRAP 16 should be applied.

3.20 As with living resources, the principles in GRAP 23 on *Revenue from Non-exchange Transactions (Taxes and Transfer)* can also be applied to account for non-living resources, i.e. land, on initial recognition where it was acquired through no or nominal consideration.

Issue 9:

Do you agree that, depending on the purpose for which land is held, the principles in existing Standards of GRAP, i.e. GRAP 12, GRAP 16, GRAP 17 or GRAP 103, can be applied in accounting for land?

If not, please explain your response.

Section 4: Applying the definition of an asset to living and non-living resources

Introduction

4.1 The previous section concluded that the principles in existing Standards of GRAP should be applied to account for land, i.e. GRAP 12, GRAP 16, GRAP 17 or GRAP 103 depending on its intended use or living resources that meets the definition of inventory in terms of GRAP 12 or agricultural activity where an entity is actively involved in managing the biological transformation of the resource in terms of GRAP 27.

4.2 The *Framework for the Preparation and Presentation of Financial Statements* (the Framework) determines that an item can only be recognised in the financial statements if it meets the definition of an element and satisfies the criteria for recognition. This section of the Discussion Paper will consider to what extent living resources and un-extracted minerals oil and gas, and other non-regenerative natural resources, as well as water, meet the definition of an asset.

Definition of an asset

4.3 The Framework defines an asset as a resource controlled by the entity as a result of past events, and from which future economic benefits or service potential is expected to flow to the entity. In determining whether a living and a non-living resource meets this definition, the following requirements in the asset definition are considered and discussed:

- Resource,
- Past event,
- Future economic benefits and service potential, and
- Controlled by the entity.

Resource

4.4 Even though the term "resource" is not defined in any Standard of GRAP, it could be argued that an entity needs to be able to use the resource to meet its objectives. The resource should be capable of producing future economic benefits and/or service potential.

4.5 In the IASB's Discussion Paper on A *Review of the Conceptual Framework for Financial Reporting* it is noted that in respect of a physical object, the resource is not the underlying object but the right to obtain future economic benefits generated by the asset. Resources will comprise a range of rights, such as the right to use the asset, the right to sell the asset, the right to pledge the asset, and legal title to the asset.

4.6 While the role of some entities is to hold living and/or non-living resources in fulfilling their mandate or service delivery objectives, others are stewards of these resources as custodians that preserve them for the benefit of present and future generations. Whether these entities use resources in meeting their objectives, or merely act as custodians, it can be argued that they are resources as envisaged in the definition of an asset.

Past event

4.7 An entity also needs to identify a past event to meet the definition of an asset. For living or non-living resources, a past event can either occur when the entity transacts with another entity or party, when an event occurs.

4.8 The above occurs, for example:

- where the entity, in terms of its mandate and legislative requirements, needs to manage and preserve the asset for the benefit of present and future generations;
- where an asset is acquired through purchase or production;
- where an asset is received at no or for a nominal consideration; and
- in the event of a natural occurrence, such as the birth of off-spring or increases in water reserves due to rainfall.

Future economic benefits or service potential

4.9 The Framework requires that for an asset to generate future economic benefits or service potential, it needs to have the potential to contribute directly, or indirectly, to the flow of cash and cash equivalents to the entity, or to the rendering of services by the entity.

4.10 Future economic benefits involve the entity’s ability to generate a positive cash inflow from the use of its assets. Future economic benefits will also be demonstrated where the entity reduces cash outflows.

4.11 Service potential involves the capacity of an asset to be used in providing goods and services that will enable the entity to achieve its objectives established in terms of its mandate, without necessarily generating net cash inflows.

4.12 Where living resources such as dogs and horses are used for policing and other security services, service potential is realised when these resources are used in delivering the required service. For other entities, such as zoos, there is a potential that the assets may be held for a dual purpose, such as for conservation, education and/or research on the one hand, and on the other hand, to generate future economic benefits such as those realised through charging an entrance fee.

4.13 Where an entity is required to establish and maintain a botanical garden, service potential will be met through the entity meeting its service delivery objectives set in terms of its mandate, to ensure that the resources are preserved for present and future generations.

4.14 When an entity is likely to experience a significant loss of future economic benefits or service potential where a living or non-living resource is destroyed or damaged, this will be an indication that the resource is likely to meet the definition of an asset. For example, if a recreation park is destroyed in a flood or fire, the entity is likely to suffer economic loss and service potential as people can no longer visit the park. Likewise, if a river or dam is polluted, citizens will not be able to use the river or dam for recreational purposes which will impact service potential.

Controlled by the entity

4.15 The Standard of GRAP on *Revenue from Non-exchange Transactions (Taxes and Transfers)* determines that control of an asset arises when an entity has the ability to exclude or regulate the access of others to the benefits of an asset. The enabling legislation may indicate the rights and obligations for the entity in relation to the living or non-living resources under its control. Enabling legislation may limit an entity, however, on how such resources can be used.

4.16 Control over a living and non-living resource can be obtained through (a) legislation, government policy or similar means where the entity is granted control over an asset to meet its service delivery objectives; (b) acquisition; (c) a non-exchange transaction, for example through a donation; or (d) a living resource may have the ability to reproduce, such as when off-spring is born.

4.17 To demonstrate control, the entity needs to control the right or access to future economic benefits or service potential of the asset.

4.18 Determining whether an entity has control over a living or non-living resource may be difficult, because in certain instances, legislation or government policy may indicate that the entity is merely the custodian of the resource.

4.19 To assist entities in determining whether the living and/or non-living resources are under their control, a number of indicators have been identified. These indicators are examples of situations that individually or in combination would assist an entity to conclude that there is control for accounting purposes over the living or non-living resource.

4.20 This list of indicators is not comprehensive and need not all be met simultaneously. Management may need to consider other indicators and apply professional judgement in making an assessment of control. These indicators can also be assessed where the entity has the ability to manage or control the living or non-living resources but has not yet exercised its ability. The indicators are:

- The degree to which an entity manages the physical condition of the living or non-living resource.
- The ability to restrict the movement and/or access to the living or non-living resource.
- The ability to direct the use of the living or non-living resource.

These indicators are discussed in the paragraphs that follow.

The degree to which an entity manages the physical condition of the living or non-living resource

4.21 Physical condition refers to the state of the living or non-living resource itself. When an entity is required by legislation, government policy, or through similar means to actively manage the physical condition of a living or non-living resource, it will serve as an indication that the entity has control over that resource. For example, an entity that intervenes in every aspect of the life cycle of a living resource, such as taking care of its nutrition, health, reproduction and environment as part of its required daily activities, provides an indication that the living resource is under its control.

4.22 Other factors that could be considered by management to determine the degree to which it manages the physical condition of a living resource are:

- The level at which a detailed feeding plan is set up;
- The level at which reproduction is managed; and/or
- The level at which accurate records of the resource is maintained.

4.23 Examples of living resources where an entity is actively involved in the management of the physical condition include:

- Horses and dogs kept by the police force, defence force and customs. These animals are kept under restraint, are sheltered most of the time and are cared for by management to ensure that they are in a good health.
- Animals held for rehabilitation, research and education such as animals held in zoos, aquariums, in breeding and recreation areas. These living resources are actively cared for by management. Where appropriate, sufficient shelter is provided to protect them from the elements. These living resources can also be easily tracked and counted by management.

4.24 An entity's ability to manage the physical condition of a living or non-living resource may be restricted through enabling legislation that limits the entity to become actively involved in the management of the physical condition of the living or non-living resource, or restrict it from exercising its right. The requirements in an entity's enabling legislation, government policy or similar means should therefore be considered in determining the degree to which an entity are required to manage the physical condition of the living or non-living resource.

4.25 In other instances management's intervention is limited, for example an entity that only intervenes when there is a severe threat to the living resource, such as the fauna and flora in a national park. In these circumstances, it is likely that management will not be held accountable for each individual resource within the specific area, but will only be expected to maintain the environment so that it is conducive to conserve the living resource in that specific area. Even though the living resources are still under the control of the entity, it has to manage and preserve them control for accounting purposes is not met.

4.26 Management is involved to a lesser degree in the management of living resources that are found in natural forests. Management will, for example, only take steps to protect natural forests from the elements, such as fire, by making sure that there are fire breaks.

4.27 In respect of non-living resources such as un-extracted minerals, oil and gas, and other non-regenerative natural resources, it can be concluded from the discussion above that management does not manage the physical condition of these. Underground minerals, oil and gas, and other non-regenerative natural resources, may become depleted due to geological activity, while others may keep their volume and quality over centuries.

4.28 Water held found in its natural condition before it is changed, modified or transformed occurs naturally. Such resources reduce or increase as a result of natural exposure, such as evaporation or rainfall, or as a result of water in rivers and springs that flows into a water resource. As previously noted, naturally occurring water cannot be sold, consumed or used without being extracted through a controlled process. In such a case, management's intervention is limited, and hence this is an indication that the non-living resource is not under the entity's control.

The ability to restrict the movement and/or access to the living or non-living resource

4.29 If an entity is able to restrict the movement of a living resource within a specified area and also has the ability to restrict access to that area, then this is an indication that the entity has control over that resource. For example, animals that are held for rehabilitation, research and education, such as animals in a zoo, are caged and access to them is controlled. This will also be the case for animals held for security or border control, and animals in aquariums.

4.30 In other instances living resources are allowed to roam freely on land, such as animals in the Kruger National Park that roam across borders. Though conservation parks have fences, animal migration occurs frequently. Since animals are not caged, animals like birds, small mammals, reptiles and insects can roam freely. Larger animals may jump over fences or other structures. Access control in these circumstances is therefore not high and such living resources are thus not under the control of the entity from an accounting perspective.

4.31 Access control over un-extracted minerals oil and gas, and other non-regenerative natural resources is, however, not an indicator of control. As with water held in its natural condition, an entity needs a licence before it can extract any of the non-living resources. This licence gives the entity a right to the asset but not control over it. The right to extract the non-living resource, i.e. the licence, meets the definition of an intangible asset in the Standard of GRAP on *Intangible Assets* (GRAP 31).

4.32 Access to water held in rivers, dams, streams, canals, lakes, estuaries, boreholes, natural fountains and springs are unlikely to be restricted as water is free flowing. Management can also not control evaporation and elements such as rainfall.

Ability to direct the use of the living or non-living resource

4.33 The fact that an entity has the ability to direct the use or disposal of a living or non-living resource in a manner it sees fit serves as an indicator of control. For example, if an entity has the ability to direct where and how dogs are to be used for security or border control, it is indicative that the entity controls these animals.

4.34 Even though trade in a particular species of a living resource is restricted, the resource may still be controlled by the entity as it has the ability to determine whether to directly use the living resources' present service potential to provide services to the public or to employ the resource in another way. The effect of the restriction is that the entity is not able to exchange the present service potential or economic benefit for another asset, such as cash. This will affect the measurement of the resource, not its recognition.

4.35 Where control is granted to an entity through legislation, government policy or similar means, or where a living resource is received through a non-exchange transaction, certain restrictions may be imposed on the entity's ability to sell or dispose of the asset. For example, the Convention on International Trade in Endangered Species (CITES) may impose a restriction on the selling of rhinos to prevent countries trading in threatened species. For a zoo, this does not mean that the rhinos held are no longer under its control simply because the entity does not control the future economic benefits and/or service potential associated with the resource.

Issue 10:

Paragraphs 4.19 to 4.35 list indicators that an entity should consider in determining whether the living and non-living resource is controlled.

Do you agree with these indicators of control? If not, please provide reasons for your view.

Are there any other indicators that should be considered in determining whether control exists?

If yes, please provide details of these indicators and explain why they should also be considered.

Conclusion on living resources meeting the definition of an asset

4.36 Paragraph 4.2 notes that, in determining whether a living or non-living resource should be recognised as an asset depends on whether the definition of an asset and the recognition criteria have been met.

4.37 The four requirements of the definition of an asset are discussed in paragraphs 4.3 to 4.35. In considering these the most complex aspect is likely to be that if meeting the requirement of control.

4.38 Determining whether an entity has control over living resources is slightly more complex because these resources often increase of decrease as a result of a natural event. Living resources are also frequently exposed to certain natural elements and/or human interventions. An entity will be able to determine to what extent it has control over these living resources when it applies the control criteria listed in paragraphs 4.19 to 4.35.

4.39 For example, where an entity actively manages the physical condition of living resources used in the delivery of goods and/or services, such as horses and dogs, and restricts access to these resources to avoid them from escaping, it can be concluded that they are likely to be controlled by the entity. Control also exists when the entity is able to direct the use or disposal of such resources, and any loss will significantly impact on the entity's future economic benefits and its ability to deliver its expected service.

4.40 Animals held for rehabilitation, research and education such as animals and plants held in zoos, aquariums, and recreational areas, or similar means are also likely to meet the definition of asset. This is because an entity actively manages the physical condition of these resources, and ensures that measures are in place to take care of them, such as providing shelter and food. Physical access to these resources are also restricted and/or controlled.

4.41 Plants growing in natural forests are probably not under the control of an entity as humans are to a lesser degree involved in the management of the resource's physical condition. However, some measures may be put in place to restrict physical access and to protect it from the elements. There is thus less human involvement when it comes to the management of the physical conditions of the plants held in natural forests. Management is more likely to act as a custodian to ensure that natural forests are preserved for the benefit of present and future generations.

4.42 A similar conclusion can be made for living animals and plants held in conservation areas. Even though conservation areas may be fenced, management is not likely to restrict the movement of animals, insects, fish, etc. Management is not always able to avoid these animals moving to other areas.

4.43 Even though management expects to obtain future economic benefits or service potential from these living resources, there is a lesser degree of human involvement when it comes to managing the physical conditions of them. Management's actions are those of a custodian aimed at preserving these resources for the benefit of present and future generations.

4.44 In considering applying the definition of an asset to living resources, it can be concluded that animals used in delivering goods and/or services and living resources held for rehabilitation, research and education, or similar means are likely to meet the definition of an asset. These living resources should therefore be recognised in the financial statements to the extent that the recognition criteria are met. Recognition and measurement will be discussed in section 5.

4.45 However, living resources held in natural forests and conservation areas are unlikely to meet the definition of an asset and should therefore not be recognised by the entity. Since management has a responsibility over these resources as the custodian, some information should still be provided to the users of the financial statements to meet their information needs for accountability and decision making. This will be discussed in section 6.

Issue 11:

Paragraph 4.44 concluded that animals used in delivering goods and/or services and living resources held for rehabilitation, research and education or similar means are likely to meet the definition of an asset and should therefore be recognised in the financial statements if the recognition criteria are met.

Do you agree with this conclusion?

If not, please explain why you disagree.

Issue 12:

Paragraph 4.45 concluded that living resources held in natural forests and conservation areas are likely not to meet the definition of an asset and should therefore not be recognised in the financial statements.

Do you agree with this conclusion?

If not, please explain why you disagree.

Conclusion on non-living resources meeting the definition of an asset

4.46 As with living resources, the most complex aspect in considering whether non-living resources meet the definition of an asset is likely to be that of control.

Un-extracted minerals, oil and gas, and other non-regenerative natural resources

4.47 As noted in paragraph 4.27, un-extracted minerals, oil and gas, and other non-regenerative natural resources are unlikely to be controlled by an entity because these minerals, oil and gas, and other non-regenerative natural resources, can become depleted, damaged or may even disappear due to geological activity. Before an entity can generate future economic benefits and/or service potential from minerals, oil and gas, and other non-regenerative natural resources that need to be extracted, the entity would require a licence. This licence, however, only gives the entity a right to the asset and does not mean that the entity controls the non-living resource.

4.48 Based on this, un-extracted minerals, oil and gas, and other non-regenerative natural resources, are unlikely to meet the definition of an asset because control cannot be demonstrated. As noted above, the IASB's Discussion Paper concluded that uncertainties about the quantities and other attributes of the mineral and oil or gas that exist, and can be economically extracted, change significantly. Uncertainty remains even in the extraction phases, but such uncertainty during early stage exploration is much greater than during extraction. Because of this uncertainty un-extracted minerals, oil and gas, and other non-regenerative natural resources, are not measurable, and hence, not recognised in the financial statements.

4.49 In the South African public sector, entities involved in extractive industries that are required to apply Standards of GRAP could not be identified.

4.50 As a result, it can be concluded that un-extracted minerals, oil and gas, and other non-regenerative natural resources, should not be recognised by an entity in its financial statements, but that disclosures should be provided to the users of the financial statements to meet their information needs for accountability and decision making. Presentation and disclosure requirements are discussed in section 6.

Issue 13:

Paragraph 4.50 concluded that un-extracted minerals, oil and gas, and other non-regenerative natural resources are unlikely to meet the definition of an asset and should therefore not be recognised in the financial statements.

Do you agree with this conclusion?

If not, please explain why you disagree.

Water held its natural state and/or condition

4.51 As with un-extracted minerals, oil and gas, and other non-regenerative natural resources, an entity is unlikely to demonstrate that it controls water that is find in its natural condition and/or state before it is changed, modified or transformed by humankind. Water resources cannot be extracted unless the entity has a licence. This licence, however, only gives the entity a right to the asset but does not mean that the entity controls the non-living resource.

4.52 Even though access to the water resources may be controlled to, for example water held in rivers and dams, access cannot be restricted because water is free flowing.

4.53 Based on these observations, it can be concluded that water held in its natural state and/or condition should not be recognised by an entity in its financial statements.

Issue 14:

Paragraph 4.53 concluded that water held in its natural state and/or condition before it is changed, modified or transformed by humankind, are unlikely to meet the definition of an asset and should therefore not be recognised in the financial statements.

Do you agree with this conclusion?

If not, please explain why you disagree.

Land on which minerals, oil and gas, and other non-regenerative natural resources and/or water in its natural state and/or condition are found, and land that is to be preserved for present and future generations

4.54 Even though section 3 concluded that existing Standards of GRAP should be applied in accounting for land, it is important to consider the extent to which minerals, oil and gas, and other non-regenerative natural resources and/or water resources that are found in the sub-surface of land, may influence the value of the land.

4.55 Previous observations in this Discussion Paper noted that in many instances, living and other non-living resources are attached to the land and cannot be separated from it. Examples are water held in rivers, dams, streams, canals, lakes, estuaries, boreholes, natural fountains, springs and water in the sea. Likewise, trees and other living plants in botanical gardens, for example, are part of the land and cannot be physically separated.

4.56 This also applies to minerals, oil and gas, and other non-regenerative natural resources, and specifically to land where exploration and evaluation has confirmed that minerals, oil and gas, and other non-regenerative natural resources had been discovered. The value of the land is then likely to increase as result of such deposits.

4.57 The GFS manual requires that, in determining the value of land that also holds structures, or associated water surface that cannot be physically separated from the land, these factors should be taken into account in determining the value.

4.58 GRAP 103 also determines that some heritage assets may have more than one purpose. If the most significant use of the asset is for heritage purposes, then the asset will be accounted for in terms of GRAP 103. GRAP 103 then requires that the financial statements must disclose information about the alternative use and value of heritage assets that are used by the entity for more than one purpose.

4.59 In the Board's view, this principle should be applied in determining the value of land that holds structures which cannot be physically separated from the land. For example, due to the uncertainty that exists regarding the measurement of un-extracted minerals due to the degree of geological estimations that needs to be made about the quantity of the un-extracted minerals, oil and gas, and other non-regenerative natural resources, the value of land, determined by applying the existing principles in the Standards of GRAP, should take into account the fact that land contains un-extracted deposits.

4.60 Determining the appropriate Standard of GRAP that should be applied in accounting for land that contains un-extracted minerals, oil and gas, and other non-regenerative natural resources, will depend on the current usage. For example, if an entity has a piece of land on which exploration has recently commenced, the land is likely to be accounted for in terms of GRAP 17. If it is known, however, that the land contains un-extracted minerals, oil and gas, and other non-regenerative natural resources, then the value of the land is likely to increase. Depending on the use of the land, it may be accounted for as either property, plant and equipment or investment property.

4.61 The value of land is also likely to increase when exploration has determined that minerals, oil and gas, and other non-regenerative natural resources can be extracted from it, despite the entity being unable to reliable estimate the quantity of the deposits.

4.62 The principle in paragraph 4.60 should also be applied to land that contains natural water, for example a river, dam, stream, canal, etc. and that are inherently part of the land controlled by the entity.

4.63 Where an entity has acquired a piece of land to be preserved for current and future generations mainly because it holds rare flower bulbs, for example, the value of the land should take into account the fact that rare bulbs are found on the land.

4.64 To the extent that the value of the land has taken into account any natural water resources, or un-extracted minerals, oil and gas, and other non-regenerative natural resources, or any other factors that could influence the value of the land, this should be reflected in the disclosure requirements that are provided to the users of the financial statements. Presentation and disclosure requirements are discussed in section 6.

4.65 To the extent that living resources such as animals can be physically separated from a non-living resource, such as land, the living resources should be accounted for separately. For example, in accounting for a zoo, the entity will be able to separate the land, constructed structures on the land and the living resources in the zoo from each other. Because these elements can be separated, the entity should separately account for the land, structures assets and other living resources in terms of the applicable Standard of GRAP.

Issue 15:

Do you agree that, to the extent that certain living resources, such as plants, and non-living resources, such as un-extracted minerals, oil and gas, and other non-regenerative natural resources or certain natural water resources are part of the land and cannot be physically separated from the land, these factors should be taken into account when the value of the land is determined, and that specific disclosure requirements about that should be provided to the users of the financial statements?

If you do not agree, please explain your response.

Section 5: Recognition and measurement of living resources

Introduction

5.1 The previous section concluded that the use of animals in delivering goods and/or services, and animals held for rehabilitation, research and education or similar means, is likely to meet the definition of an asset. Un-extracted minerals, oil and gas, and other non-other non-regenerative natural resources, or water that is find in its natural state and/or condition and that are part of the land and should be accounted for by applying the applicable Standards of GRAP.

5.2 Once the definition of an asset has been met, the Framework determines that the recognition criteria should be met before an item can be recognised in the financial statements. The Framework describes recognition as the process of incorporating, in the statement of financial position or statement of financial performance, an item that meets the definition of an element and satisfies the criteria for recognition. Paragraph .111(d) of the Framework sets out the recognition criteria which determines that an item that meets the definition of an element should be recognised if:

- it is probable that any future economic benefits or service potential associated with the item will flow to the entity; and
- the item has a cost or value that can be measured reliably.

5.3 This section of the Discussion Paper considers the recognition criteria for animals used in delivering goods and/or services, and animals held for rehabilitation, research and education (living resources), before the measurement bases that could be used to recognise and measure living resources will be considered.

Recognition criteria

5.4 The first recognition criterion to be met for living resources is that it should be probable that future economic benefits or service potential associated with the item will flow to the entity.

5.5 Future economic benefits and service potential was discussed in the previous section.

5.6 The second recognition criterion is that the cost or value of the asset should be measured reliably.

5.7 As mentioned in section 4, an entity can obtain control over an asset either through (a) legislation, government policy or similar means where the entity was granted control over an asset to meet its service delivery objectives (b) acquisition; (c) a non-exchange transaction; or (d) a living resource may have the ability to reproduce.

5.8 To recognise a living or non-living resource in the financial statements, it is necessary to attach a monetary value to it. This implies that the entity has an appropriate measurement basis.

5.9 The Framework acknowledges that a cost or value may be estimated in recognising an element in certain instances. The use of estimates is therefore an essential part of the preparation of financial statements and does not undermine the financial statements' reliability. The Framework also determines that when estimates cannot be made, the item should not be recognised in the statement of financial position or statement of financial performance. If they cannot be measured reliably, disclosing certain information in the notes to the financial statements, or explanatory material in supplementary schedules may be useful in providing information to the users of the financial statements about that item.

Initial and subsequent measurement

5.10 The Framework determines that, at each reporting date, the carrying amount of an asset recognised in the statement of financial position should reflect its future economic benefits or remaining service potential. In selecting the measurement basis to be used for a particular category of assets, the Framework indicates that the basis should be selected bearing in mind:

a. the objective of financial statements and the qualitative characteristics of financial information, in particular relevance and reliability;

b. the nature of the assets concerned; and

c. the particular circumstances.

5.11 The following paragraphs consider the initial and subsequent measurement bases to be applied to living resources in measuring them.

Measurement bases

5.12 The Framework lists the following measurement bases that can be considered:

- historical cost;
- current replacement cost;
- realisable (settlement) value;
- present value;
- market value; and
- fair value.

Historical cost

5.13 Applying the cost method requires the recognition of an asset at the amount of cash and cash equivalents paid or the fair value of the consideration given to acquire it at the time of its acquisition.

5.14 Under the historical cost method, the cost at which the living resource is initially measured will not change to reflect subsequent changes in prices, but the initial cost may need to be adjusted, where appropriate, to reflect depreciation and/or impairment.

5.15 Subsequent to initial recognition, historical cost is unlikely to represent the expected future economic benefits or service potential embodied in a living resource. It may therefore, not provide reliable and relevant information to the users of financial statements in relation to the living resource. This is because the value of the living resource is likely to increase from birth to a certain point in its life cycle, after which the value is likely to decrease. The cost at which a living resource, for example an animal, is acquired at a young age may not reflect the service potential when it is at an age when it can operate in the manner intended by management.

5.16 Historical cost will only be appropriate, however, on initial measurement where a living resource was acquired in an exchange transaction. For example where rare trees are acquired and planted in a botanical garden, the cash paid for these trees will be available and hence historical cost can be applied. Applying historical cost as a subsequent measurement bases may not be that appropriate as it is unlikely to represent the expected future economic benefits or service potential embodied in the living resource. For example, once the rare trees are planted, their value is likely to increase as they grow. Applying historical cost to living resources will not reflect the value of the living resource during its period of growth, degeneration, production and procreation.

Fair value

5.17 Fair value is defined in the Standards of GRAP as the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

5.18 Various Standards of GRAP outline guidance on how fair value is determined, and which can be applied in determining a value on initial and subsequent measurement. For example, GRAP 17 determines that the fair value of items of land and buildings is usually determined from market-based evidence by appraisal. An appraisal of the value of the asset can be undertaken by professionally qualified valuers. GRAP 17 also acknowledges that the fair value for many assets will be readily ascertainable by reference to quoted prices in an active and liquid market. GRAP 17 further acknowledges that if no evidence is available to determine the market value in an active and liquid market, fair value may be established by reference to other items with similar characteristics, in similar circumstances and location.

5.19 The guidance on determining fair value in GRAP 17 is similar to that in GRAP 16, GRAP 31 and GRAP 103.

5.20 GRAP 27 outlines that the fair value of biological assets or agricultural produce should be based on the asset's present location and condition. The determination of fair value for a biological asset or agricultural produce may be facilitated by grouping biological assets or agricultural produce according to significant attributes, for example by age or quality. An entity should therefore select the attributes corresponding to those used in the market as a basis for pricing.

5.21 GRAP 27 further outlines that if an active market exists for a biological asset or agricultural produce, in its present location and condition, the quoted price in that market is the appropriate basis for determining fair value. If an entity has access to different active markets, the entity should use the most relevant one. If an active market does not exist, an entity uses one or more of the following, when available, in determining fair value:

(a) the most recent market transaction price, provided that there has not been a significant change in economic circumstances between the date of that transaction and the reporting date;

(b) market prices for similar assets with adjustment to reflect differences; and

(c) sector benchmarks such as the value of an orchard expressed per export tray, bushel, or hectare, and the value of cattle expressed per kilogram of meat.

5.22 GRAP 27 also outlines that where market-determined prices or values are unavailable for a biological asset in its present condition, the entity should use the present value of expected net cash flows from the asset discounted at a current market-determined rate in determining fair value.

5.23 In applying fair value as an initial and subsequent measurement basis to living resources, it could be argued that fair value will provide relevant and up-to-date valuation of the actual value of these resources. The frequency of valuations will depend upon the changes in values of the items being revalued.

5.24 As living resources generally have life-cycle processes as a result of different stages of development, applying fair value as a measurement basis is likely to best capture the value of the living resource throughout the difference stages of development. This will provide relevant and useful information to users of the financial statements.

5.25 Various estimates can be applied in determining fair value, such as a market value. It should be acknowledged that when reliable market-based evidence is unavailable, and other estimates of fair value are unobtainable, fair value as a measurement basis, may be inappropriate.

5.26 Applying fair value as a measurement basis on initial measurement will be appropriate where the living resource was obtained through a non-exchange transaction, such as a donation, or where it was acquired in exchange for another asset. It can also be applied where the resource is used in delivering goods and/or services, where it is held for rehabilitation, research and education, or where a living resource is reproduced.

5.27 In applying fair value as a subsequent measurement basis to living resources, an up-to-date valuation of the living resource during its development will be reflected in the financial statements.

Current replacement cost

5.28 The Framework describes current replacement cost as the cost to replace an asset. GRAP 17 requires that the replacement cost of an asset can be established with reference to the buying price of an asset with a similar remaining service potential in an active and liquid market.

5.29 Replacement cost can be seen as the most economic cost required to replace the service potential of an asset in the normal course of operations at the reporting date. Although the most economic replacement of service potential will, in most cases be when a similar asset to that controlled by the entity is purchased, replacement cost is based on an alternative asset if that alternative asset would provide the same service potential more cheaply. It would therefore be necessary to make adjustments to reflect the difference in service potential between the existing and replacement asset.

5.30 Current replacement cost is usually applied as a measurement basis to specialised assets.

5.31 The Standard of GRAP on *Impairment of Non-cash-generating Assets* (GRAP 21) describes replacement cost is an ‘optimised cost’. The rationale in using this measurement basis is that the entity would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is overdesigned or has excess capacity. The determination of the current replacement cost of an asset on an optimised basis thus reflects the service potential required of the asset.

5.32 Replacement cost reflects the economic position of the entity rather than the prevailing market position. It includes all costs, including transaction costs that would necessarily be incurred in the replacement of the service potential or future economic benefits of an asset. In determining the replacement cost of an asset, subjective judgements may be required and the calculation of replacement cost may be complex.

5.33 This measurement basis may be appropriate to determine a value for living resources in the absence of an active market to calculate fair value.

Value in use

5.34 Value in use (or present value) is used when assets are carried at a present discounted value of the future net cash flows that the item is expected to generate in the normal course of operations.

5.35 In GRAP 21, and the Standard of GRAP on *Impairment of Cash-generating Assets* (GRAP 26) value in use is determined from an impairment perspective. The IPSASB's recently issued Exposure Draft of Phase 3 of its Conceptual Framework *Measurement of Assets and Liabilities in Financial Statements* describes value in use as the present value at the reporting date to the entity of the asset's remaining service potential or economic benefits if it continues to be used, and of the net amount that the entity will receive from its disposal at the end of its useful life.

5.36 Value in use is, however, an entity-specific value that reflects the amount that can be derived from an asset through its operations and its disposal at the end of its useful life.

5.37 Value in use if often used to assess impairment. Value in use will be an appropriate measurement model where it is less than replacement cost and greater than net selling price. This will be, for example, where a living resource is not worth replacing, but the value of its economic benefits or service potential is greater than its net selling price. In these circumstances, value in use will represent the value of the asset to the entity.

Realisable (settlement) value

5.38 The Framework describes that when realisable value is used, assets are carried at the amount of cash or cash equivalents that could currently be obtained by selling the asset in an orderly disposal, less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

5.39 Realisable value is an entity specific value, based on a contract, and is determined in relation to the selling price that an entity will obtain in an orderly disposal. The usefulness of realisable value is that a living resource cannot be worth less to the entity than the amount it could obtain on sale of the asset.

5.40 Realisable value can be applied where the most resource-efficient course available to the entity is to sell the living resource, which will be when the living resource cannot provide service potential or economic benefits at least as valuable as realisable value.

5.41 The use of realisable value as a measurement basis is anticipated to be limited because the objective of most entities is to deliver a service, and not to generate a commercial return.

Market value

5.42 The Framework describes that market value entails the amount obtainable from the sale of an asset in an active market.

5.43 The extent to which market value meets the objectives of financial reporting and the information needs of users partially depends on the quality of the market evidence, which in turn, depends upon the characteristics of the market in which the asset is traded.

5.44 Similar to the conclusion on the application of realisable value as a measurement basis, market value will be applicable where management intends to sell the living resources.

Measurement bases for initial measurement

5.45 The Standards of GRAP that prescribe the accounting of assets, i.e. GRAP 12, GRAP 16, GRAP 17, GRAP 31 and GRAP 103 requires that an item that qualifies for recognition should initially be measured at cost. Where the asset is acquired at no cost or for a nominal consideration, cost shall be measured at its fair value as at the date of acquisition.

5.46 Based on the discussion of the measurement bases in paragraphs 5.18 to 5.44, the Board is of the view that historical cost will be an appropriate measurement basis to initially measure living resources that were acquired in an exchange transaction, as the amount of cash or cash equivalent paid or another consideration given, is available on the date of acquisition.

5.47 The Board is also of the view that where living resources are received through a non-exchange transaction, including where there was reproduction by the resource, the application of fair value as an initial measurement basis will be appropriate.

Issue 16:

Paragraphs 5.46 and 5.47 propose that the existing requirements in the Standards of GRAP should be applied to initially measure living resources, i.e.:

(a) living resources acquired in an exchange transaction should initially be measured at cost; and

(b) living resources acquired at no or for a nominal consideration, including those that reproduce should initially be measured at fair value.

Do you agree this proposal?

If not, please explain why you disagree.

5.48 Determining the fair value of living resources on initial recognition may, however, be problematic where no active market exists to determine fair value on initial recognition, and no alternatives for determining fair value are available. In these circumstances, it may appropriate to either apply replacement cost, realisable value, present value and market value in determining a value for the living resource. In determining the most appropriate measurement bases, management needs to apply judgement based on its unique circumstances.

Issue 17:

The Board is of the view that, in some instances, replacement cost, realisable value, present value and market value may be appropriate in determining a value for some living resources as explained in paragraphs 5.28 to 5.48. However, in determining the most appropriate measurement bases, management needs to apply judgement based on its unique circumstances.

Do you agree that with this proposal?

If not, please explain why you disagree.

5.49 If, however, no value can be determined reliably, the entity will not be able to recognise the living resource as an asset as the recognition criteria would not have been met. In these circumstances, it would be useful to disclose information about the living resource in the financial statements.

Issue 18:

Do you agree that, when reliable information is unavailable on initial recognition to reliably measure and determine a fair value for a living resource, the entity should only be required to disclosure relevant and useful information about the living resources in its financial statements?

If you do not agree with this view, please explain your response.

Subsequent measurement

5.50 Based on the discussion of the measurement bases in paragraphs 5.12 to 5.49, the Board is of the view that fair value is the most appropriate measurement basis that should be applied to subsequently measure living resources. This is because fair value best reflects the value of the living resource over its life, i.e. growth, degeneration, production and procreation. Various alternatives can also be applied to determine fair value in the absence of reliable market information.

Issue 19:

Paragraph 5.50 concluded that fair value is the most appropriate measurement basis for the subsequent measurement of living resources.

Do you agree with this view?

If not, please explain your response.

Issue 20:

In applying fair value as a subsequent measurement basis for living resources, do you agree that:

(a) Fair value should be determined by market-based evidence, or by reference to quoted prices in an active and liquid market?

(b) If no evidence is available to determine the market value in an active and liquid market, fair value may be established by reference to:

- **The most significant transaction price, provided that there has not been a significant change in economic circumstances between the date of that transaction and the reporting date; or**
- **Market prices for similar resources, with similar characteristics, held or used in similar circumstances, with adjustments to reflect any differences; or**
- **Sector benchmarks?**

If you do not agree with the above view, how do you propose fair value should be determined to subsequently measure living resources?

Issue 21:

In the absence of any alternative in determining fair value, and in the absence of any other appropriate measurement bases, do you agree that the entity should be required to only disclose relevant and useful information about its living resources in its financial statements?

If you do not agree with this view, please explain your response.

Frequency at which fair value should be determined

5.51 The Standards of GRAP determines that the frequency of valuations depends upon the changes in the fair values of the items. When the fair value of a revalued asset differs materially from its carrying amount, a further revaluation is necessary.

5.52 GRAP 17 determines that some items of property, plant and equipment experience significant and volatile changes in fair value, thus necessitating annual revaluation. Frequent revaluations are unnecessary for items of property, plant and equipment with only insignificant changes in fair value. Instead, it may be necessary to revalue the item only every three or five years.

5.53 In determining the fair value for living resources the frequency should also be based on how often the resources are subjected to significant and volatile life cycle changes. Fair value is likely to be determined more regularly for an animal through its growth to maturity. Thereafter, a change in fair value may be insignificant from one reporting period to the next, resulting in less frequent valuations.

Issue 22:

Do you agree with the conclusion in paragraph 5.53 that the frequency of valuations for living resources should be determined based on changes in the resource's lifecycle.

If you do not agree, please explain your response.

5.54 Depreciation of an asset requires an entity to allocate the depreciable amount of an asset over its useful life, with reference to the asset's useful life and residual value. Because the proposal in paragraph 5.53 is to determine the fair value for the living resources based on how often the resource are subjected to significant and volatile lifecycle changes, any depreciation, or decreases in surplus or deficit from using or holding the resource, will be taken into account as part of the fair value assessment. The Board is therefore of view that depreciation should not be considered as a subsequent measurement principle to account for living resources.

Issue 23:

Do you agree with the conclusion in paragraph 5.54 that depreciation should not be considered in measuring a living resource?

If you do not agree, please explain your response.

Section 6: Presentation and Disclosure

Introduction

6.1 In previous sections of this Discussion Paper it was concluded that some living and non-living resources should be recognised as an asset in an entity's financial statements, while other living and non-living resources are not recognised. Although some entities do not recognise living and non-living resources for the reasons discussed earlier, their mandate still requires them to preserve and manage living and non-living resources for the benefit of present and future generations.

6.2 Relevant and useful information should therefore be presented and disclosed to the users of the financial statements in meeting their information needs for accountability and decision making. These presentation and disclosure requirements should be provided for living or non-living resources that:

(a) meet the definition of an asset and are recognised in the entity's financial statements;

(b) meet the definition of an asset but are not recognised in the entity's financial statements because it cannot be reliably measured; and

(c) do not meet the definition of an asset, but over which the entity has a custodial responsibility to manage the resource in terms of legislation, government policy or similar means.

6.3 The Framework clarifies that the objective of presentation and disclosure in the financial statements is to provide additional information to assist users of the financial statements to understand how transactions, other events and conditions are reflected in such financial statements. This additional information could be qualitative or quantitative in relation to items recognised in the financial statements or information about items not recognised in them.

Disclosing information about living and non-living resources

6.4 In deciding what information must be disclosed in the financial statements about living and non-living resources, an entity should consider:

(a) its operations, policies and the mandate which may be established through legislation, government policy or similar means, prescribing how the entity should manage its living and non-living resources; and

(b) information that would be useful to the users of the financial statements

6.5 Given that there is a wide range of users with different information needs, deciding on which information would be useful to the users is likely to be judgemental. For example, a user interested in conservation may find the geographical movement of a specific type of species useful for various reasons (e.g. research purposes), while an entity that donated funding may be more interested in the efficient and effective use of the donation.

Disclosure objectives

6.6 Information about living and non-living resources, irrespective of whether such resources have been recognised in the financial statements, may be useful to the users of financial statements when it meets the following objectives.

(a) It provides information about the nature of the living and non-living resources of the entity;

(b) It provides information about the entity's role and responsibility in relation to the living and non-living resources.

(c) It provides information about the financial and other risks associated with the entity resulting from its responsibility to manage and preserve these living and non-living resources.

(d) It provides information about other custodial responsibilities resulting from its responsibility to manage and preserve these living and non-living resources.

General disclosure requirements

6.7 In providing relevant and useful information on living and non-living resources for purposes of paragraph 6.2, it may be useful to disclose the following in the notes to the financial statements in meeting the information needs of users for accountability and decision making purposes:

(a) A description to understand the nature and types of the living and non-living resource for which the entity is responsible.

(b) A description of whether these resources have been recognised in the entity's statement of financial position.

(c) A description of the arrangement or mandate that resulted in the entity having a custodial responsibility over these living and non-living resources.

(d) A description of any liabilities, or contingent liabilities that arise as result of these living and non-living resources.

(e) Commentary about risks that the entity is exposed to as a result of its responsibility to manage or preserve living or non-living resources, and its objectives, policies and processes to manage and mitigate these risks.

Disclosures from Standards of GRAP

6.8 The asset-related Standards of GRAP include various disclosure requirements in which an entity has recognised and measured assets as an element in its financial statements. Where an entity has recognised and measured living and non-living resources, the following disclosure requirements in the notes to the financial statements may be useful, in addition to the disclosure requirements already required in other Standards of GRAP, such as the Standard of GRAP on *Presentation of Financial Statements*:

(a) The accounting policies adopted in measuring the asset, i.e. the measurement basis used;

(b) The total carrying amount of the assets and where appropriate, the carrying amount in classifications appropriate to the entity;

(c) A reconciliation of the carrying amount at the beginning and end of the reporting period, showing items such as additions, transfers, disposals, depreciation, impairment, etc;

(d) A description of assets held for sale and those held for distribution at no charge or for a nominal consideration;

(e) The existence and amounts of restrictions on title and assets pledged as securities for liabilities;

(f) The amount of any commitments for the acquisition of an asset;

(g) A summary of significant judgements applied to conclude whether the resource are not controlled for accounting purposes and should therefore not be recognised in its financial statements; and

(h) When living resources are revalued, disclosures on the date of the revaluation, whether a valuer was used, methods and assumptions applied in making estimates and the extent to which values were determined by reference to observable prices in active or recent market transactions need to be disclosed.

6.9 Where an entity has not recognised its living and non-living resources because reliable and relevant information was unavailable to measure the living or non-living resource on initial recognition, or subsequent to initial recognition because reliable information became unavailable, the following disclosure requirements in GRAP 16 and GRAP 103 may provide useful information to the users of financial statements:

(a) a description of the living or non-living resource;

(b) the reason why the living or non-living resource could not be measured reliably or fair value could not be determined;

(c) to the extent possible, the range of estimates within which fair value is highly likely to lie; and

(d) on disposal of the living or non-living resource, the compensation received and the amount recognised in the statement of financial performance.

Issue 24:

(a) Do you agree with the disclosure objectives listed in paragraph 6.5? In your view, are there any other objectives which users of financial statements may find useful?

(b) Do you believe that the proposed disclosures relating to living and non-living resources as outlined in paragraph 6.6 meet these disclosure objectives? Please provide details of any other further information that, in your view, users may find useful.

(c) Do you believe that the proposed disclosure requirements as outline in paragraphs 6.8 and 6.9 can be provided where living and non-living resources were recognised and measured in an entity's financial statements? Please provide details of any other further information that, in your view, should be disclosed.