

## Public Sector: Treatment of fully depreciated assets still in use (GRAP 17)

May 2021

The Accounting Standards Board has during their March 2021 FAQ raised the issue surrounding fully depreciated assets still in use beyond their accounting useful life.

The disclosure requirements of GRAP 3 must be applied irrespective whether the adjustment should be treated as a change in accounting estimate or an error.

GRAP 17 requires an entity to assess the useful lives, residual values and depreciation methods of assets **at every reporting date**. This is done by assessing at **each reporting date** whether there is any **indication** that the entity's expectations about the useful lives and residual values of an asset have changed since the preceding reporting date. When such indications exist, an entity is required to **revise** the expected useful life and/or residual values accordingly.

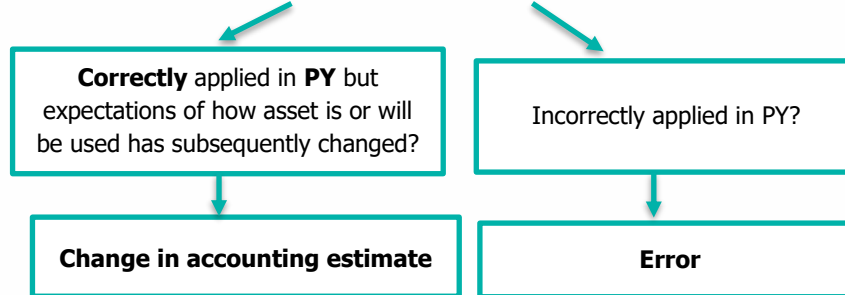
The estimation of the useful lives of assets is a matter of **professional judgment** based on the experience of the entity with similar assets, i.e. technical information (performance, maintenance and replacement of assets), financial information (budgetary constraints, forecast, plans of disposal or replacement) and other information (how the entity intends on using its assets).

The following must be considered to establish whether the **principles of GRAP 17** were sufficiently applied:

- ❖ Did the entity perform an **assessment** of the useful lives and residual values of assets in the **current reporting period in terms of GRAP 17**?

**Important: Is there evidence of this assessment by management?**

- ❖ Did the entity perform an **assessment** of the useful lives and residual values of assets in the **prior year** and was it correctly applied in terms of GRAP 17 and based on the available information and facts at the time?



### How to account for a **PROSPECTIVE** adjustment?

- ❖ Change the carrying amount of the asset in the year of change
- ❖ Reverse a portion of the accumulated depreciation to surplus or deficit *(Difference between depreciation in PY and the depreciation that would have been charged for that period based on the revised useful life of the asset)*
- ❖ Depreciate the cost or revalued amount of asset over its revised useful life
- ❖ Disclose the gross movements in depreciation in the notes to the financial statements

### How to account for **RETROSPECTIVE** adjustment?

- ❖ Correct the error in the 1st set of financial statements authorised for issue
- ❖ Restate the comparative amounts for the prior period(s) in which the error occurred
- ❖ If error occurred before the earliest period presented – restate the **opening balance** of assets, liabilities and net assets for the earliest prior period presented

### Decision tree:

*The decision is applied after the assessment that the assets are considered material (quantitatively and/or qualitatively)*

*Note: When not considered material - No adjustment required to the financial statements*

