

Accounting Guideline



national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

GRAP 103

Heritage Assets

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Note that this document is not part of the GRAP standard. The GRAP takes precedence while this guideline is used mainly to provide further explanations on the concepts already in the GRAP.

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1. INTRODUCTION





This document provides guidance on the accounting treatment and disclosure of heritage assets.

The contents should be read in conjunction with GRAP 103 (issued July 2008).

For purposes of this guide, “entities” refer to the following bodies to which the standards of GRAP relate to, unless specifically stated otherwise:


- National and provincial departments
- Public entities
- Constitutional institutions
- Municipalities and all other entities under their control
- Parliament and the provincial legislatures


Explanation of images used in manual:

	Definition
	Take note
	Management process and decision making
	Example

2. SCOPE

GRAP 103 is applicable to all entities preparing their financial statements on the accrual basis of accounting.

	<p>If an entity manages the biological transformation of an asset, and that asset also meets the definition of a heritage asset as defined in GRAP 103, that asset should be recognised, measured and disclosed in terms of GRAP 27 - Agriculture. Refer to accounting guideline GRAP 27 for detail.</p>
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	<p>Accounting for heritage assets</p> <p>Currently, entities have an option with regards to the accounting for heritage assets, i.e. they can apply the principles in GRAP 17 – Property, Plant and Equipment, or apply the principles in GRAP 103.</p> <p>Under GRAP 17, it is not compulsory to recognise heritage assets which would otherwise meet the recognition criteria of that standard. Refer to the accounting guideline GRAP 17 for detail. If an entity does however recognise heritage assets, it is not necessary to apply the measurement principles of GRAP 17, but the disclosure requirements of GRAP 17 must be applied.</p> <p>If an entity applies the principles in GRAP 103 to account for heritage assets, an entity should comply in full with the recognition, measurement and disclosure requirements in the standard. Refer to the sections on recognition, initial measurement, subsequent measurement and disclosure for detail.</p> <p>For entities that are applying GRAP 17, it should be noted that once GRAP 103 is elected, the option to account for heritage assets in terms of GRAP 17 will be removed.</p>
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3. THE BIG PICTURE

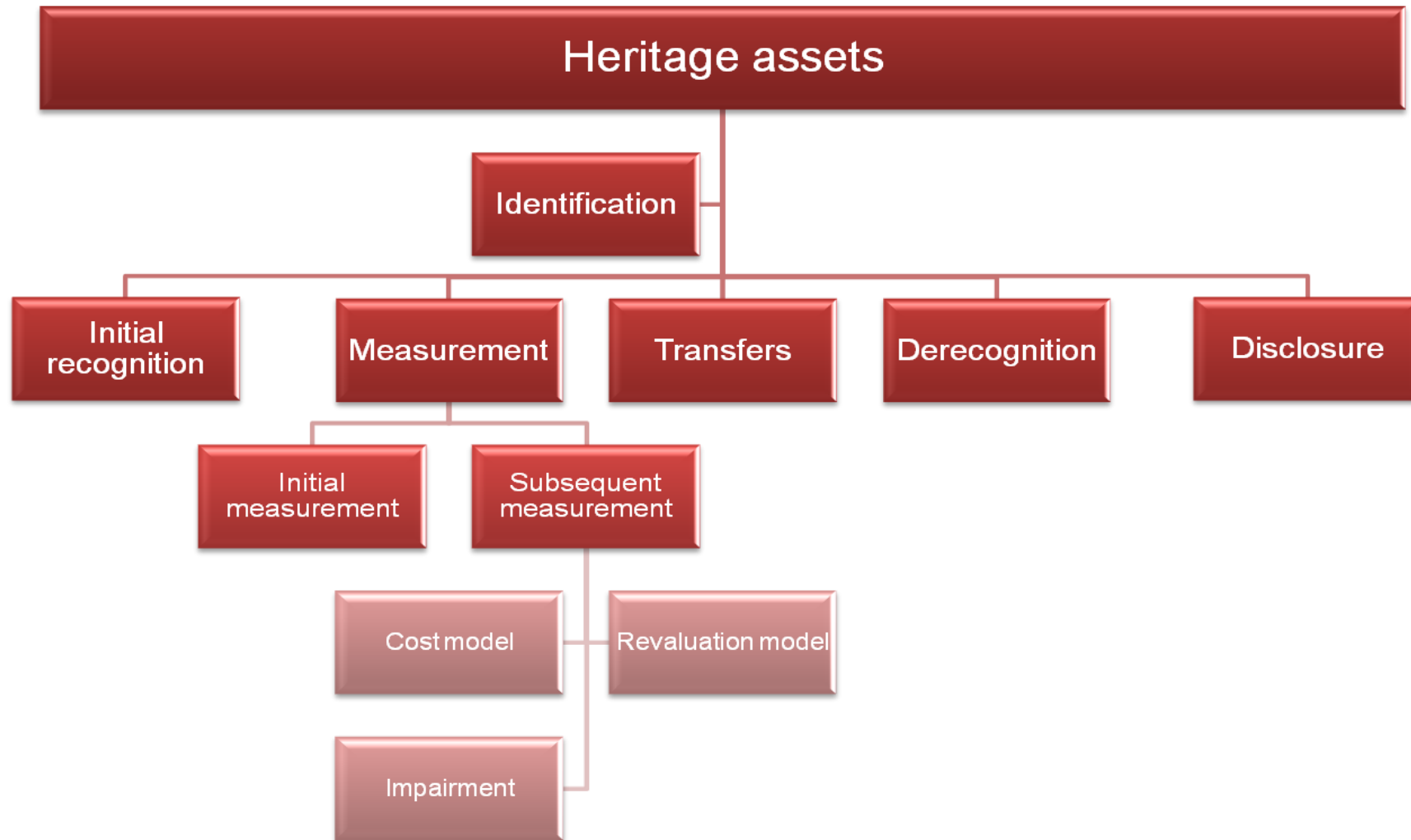



Figure 1


4. IDENTIFICATION


	<p>Heritage assets are assets that have cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.</p>
<h3>F.A.Q</h3>	<p>One of the most frequently asked questions are: How does an entity distinguish heritage assets from “old assets”?</p> <p>Answer: Entities frequently use own items of property, plant and equipment, intangible assets, inventories and other types of assets that are old but are still being used functionally. For example, an entity may own old furniture such as desks and chairs that are being used for administrative purposes and meet the definition of property, plant and equipment.</p> <p>“Old assets” are not the same as “heritage assets” as heritage assets should meet the definition criteria (see above).</p> <p>One of the key features of heritage assets is that they are held indefinitely for the purposes of preserving such assets for the benefit of present and future generations. This means that entities often incur expenditure to preserve and extend the life of an asset so that it can be enjoyed by future generations. As a result of the preservation of heritage assets, their value often increases over time, making the effect of depreciation negligible.</p> <p>The purpose of holding items of Property, Plant and Equipment and other assets is for them to be used in executing an entity’s activities. As a result, these assets are “consumed” over time or as they are used.</p> <p>Entities should therefore ascertain what the purpose is of holding various assets in determining whether they should be treated as “heritage assets” or as other assets in accordance with the relevant Standards of GRAP.</p>

Some characteristics often displayed by heritage assets that an entity can consider (note: that not all heritage assets necessarily display these characteristics):


- Their value in cultural, environmental, educational and historical terms is unlikely to be fully reflected in monetary terms;
- The value of these assets tend to increase over time even if their physical condition deteriorates;
- They are often irreplaceable;
- They have indefinite useful lives and their value appreciates over time due to their cultural, environmental, historical, natural, scientific, technological or artistic significance (refer to example below);
- Ethical, legal and/or statutory obligations may impose prohibitions or severe stipulations on disposal by sale;

- They are protected, kept unencumbered, cared for and preserved.

	<p>Example 1: Identification heritage assets</p> <p>Examples of assets that could be regarded as classes of heritage assets:</p> <ul style="list-style-type: none"> • Sites declared national heritage sites by government; • Collections of insects, butterflies and fossils; • Historical monuments, including graves and burial grounds; • Archaeological and paleontological sites; • Conservation areas such as national parks; • Objects of scientific or technological interest such as rare species; • Historical buildings that have significant historical associations e.g., churches, museums, courthouses, prisons, hospitals; • Moveable objects such as medals, coins, stamps or objects of decorative or fine art; • Works of art, antiquities and exhibits, such as biological and mineral specimens or technological artefacts; • Collections of rare books, manuscripts, records, photos and other materials held by libraries to be preserved for their historical and cultural value; • Intangible heritage assets such as recordings of significant historical events and rights to use the likeness of a significant public person on, for example, postage stamps or collectible coins; • A notable figure, organisation, event or period with a historical significance; • Industrial, scientific, and technical innovations; and • A particular building type, style, period or architect of architectural significance.
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	<p>In summary, some key features of heritage assets that can be used in indentifying an asset as a heritage asset:</p> <ul style="list-style-type: none"> • The asset is held indefinitely; • The government has declared the asset as of historical significance; • The asset is protected, cared for and preserved for present and future generations; • The asset's value increases over time; • No monetary value can sometimes be placed on the asset; and • Other relevant factors. <p>If an entity still cannot determine whether the asset is a heritage asset or property, plant and equipment, intangible asset or biological asset, it should ascertain the purpose of holding the asset, i.e. is it used to execute the entity's activities or for another purpose.</p> <p>If it is used to execute an entity's activities, it is most likely an asset other than a heritage asset.</p>
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There are instances where heritage assets can have a dual purpose, for example where an historical building meets the definition of a heritage asset, but it is also used for offices. These assets that are used for more than one purpose can only be classified as a heritage asset when a significant portion of the asset meets the definition of a heritage asset. The entity cannot split an asset into two or more classifications. For example: a portion of a property cannot be classified as property, plant and equipment and another portion classified as heritage assets. The full asset is either a heritage asset or it is not a heritage asset.

	<p>Determining whether or not the heritage portion is significant or not is a judgement that should be made by management. This judgement should be applied consistently between all the assets.</p> <p>To ensure consistent application of the criteria, it is recommended that management include the judgement criteria as part of their asset management policy.</p>
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5. INITIAL RECOGNITION

5.1. General

Heritage assets should be recognised only when:

- It is probable that future economic benefits or service potential associated with the asset will flow to the entity; and
- The cost or fair value of the asset can be measured reliably.

5.2. Treatment of research and development costs

Refer to **accounting guideline GRAP 31** for guidance on the treatment of research and development costs, i.e. exploration costs, incurred in searching for new heritage assets. As the entity will not be able to demonstrate at the research phase that a heritage asset that meets the recognition and measurement criteria will be located, the entity should recognise the expenditure as expenses when it is incurred, in terms of GRAP 31 – Intangible assets. Only costs incurred that meet the criteria for recognition as development costs, as indicated in GRAP 31, can be capitalised in the carrying amount of the heritage asset.



Example 2: Research and development costs – restoration costs incurred

Entity R&D received information of the existence of voice recordings of private conversations between Jan Smuts and Winston Churchill during the Second World War that may be of historical significance and subsequently underwent exploration costs to search for the recordings. At the reporting date, 31 March 2009, nothing was found as yet.

The exploration cost for the period amounted to R500,000.

On 1 April 2009, entity R&D discovered the voice recordings and preliminarily verified the authenticity. No costs were further costs were incurred.

However, the recordings were badly damaged and had to be restored and digitally re-mastered, after which an extensive verification process was followed to guarantee the authenticity. The costs of the verification, restoration and re-mastering amounted to R300,000.

Journal entries:

The journal entries for the two periods would be as follows:

31 March 2009	Debit	Credit
	R	R
Research cost	500,000	
Bank/Creditor		500,000
Recognising restoration costs incurred		

	31 March 2010	
	Debit	Credit
	R	R
Heritage assets	300,000	
Bank/Creditor		300,000
Recognising development costs incurred		

As mentioned earlier under the section on **Identification**, an example of a heritage asset is an object of scientific or technological interest. If an entity incurs cost, for example research and development costs, to develop an object for scientific or technological purposes, the costs should be accounted for in accordance with GRAP 31 – Intangible assets, i.e. research costs should be expensed and development costs should be capitalised (only if it meets the specific recognition criteria).

During the research and/or development phase, an entity might not yet know whether the asset will be a heritage asset, and therefore, when capitalising the development costs, the asset recognised will be an intangible asset at that stage. However, when an entity subsequently determines (even after a few years) that the asset has become a heritage asset and that it meets the definition and recognition criteria of a heritage asset, it can then transfer the carrying amount of the intangible asset to heritage assets and account for the asset under GRAP 103 from that point forward.

For more detail on transfers to and from heritage assets, refer to the section on **Transfers**.

6. INITIAL MEASUREMENT

6.1. General

Heritage assets which qualify for recognition as an asset should initially be measured at cost.


Where heritage assets were acquired for no cost or nominal cost its cost should be measured at fair value on the date of acquisition.

Heritage assets may be gifted or contributed to an entity and therefore obtained at no cost. GRAP 23 - Revenue from Non-exchange Transactions deals with the recognition and measurement of assets under these situations, as well as with the accounting for grants received for the acquisition of assets.

For example, a museum may receive a valuable art collection from the estate of a benefactor. The cost will then be the fair value of the art collection at transaction date.

In determining the fair value of a heritage asset acquired through a non-exchange transaction, an entity should apply the principles under the section on **determining the fair value**.

Subsequent to the recognition of such an asset, an entity can choose to adopt either the revaluation model or the cost model in accordance with GRAP 103.

	<p>Measuring heritage assets at initial recognition at fair value vs. measuring heritage assets using the revaluation value model for subsequent measurement</p> <p>Remember that the initial measurement at fair value of an asset acquired at no cost does not call for the use of nor does it imply the use of the revaluation model for subsequent measurement.</p> <p>If a heritage asset is measured at fair value on initial recognition, the value will be deemed to be the cost under subsequent measurement, if the cost model is used.</p> <p>However, if the revaluation model is used under subsequent measurement, the revalued amount is usually either the market value determined by appraisal or the fair value by reference to other items with similar characteristics, etc. The movements in the revalued amount will be recognised in a revaluation surplus in net assets.</p> <p>For more detail on the revaluation model (and cost model), refer to the section on Subsequent measurement.</p>
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If an entity cannot recognise a heritage asset (or class of heritage assets), which would otherwise meet the definition and recognition criteria of a heritage asset, because at initial recognition it cannot reliably measure its cost or fair value, the entity should **disclose** relevant and useful information about the heritage asset in the notes to the financial statements.

Thus, where heritage assets **cannot be reliably measured at initial recognition** GRAP 103 requires disclosure only.

Note that this refers to the **initial recognition** of a heritage asset, and should be distinguished from instances where a heritage asset's fair value cannot be reliably determined **subsequent to initial recognition**. In that case, the cost or fair value could be determined for recognition purposes, but at subsequent measurement, under the revaluation model, the fair value could not be reliably determined. Refer to the section on **Subsequent measurement** for more detail.

6.2. Elements of cost

Cost can include:

- purchase price after deducting trade discounts and rebates;
- import duties;
- non-refundable purchase taxes;
- any direct cost to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. These cost may include:
 - cost incurred to initially move or remove the asset to its site;
 - professional fees;
 - initial delivery and handling fees; and
 - installation cost.

Capitalisation of costs should cease as soon as the asset is in the location and condition necessary for it to be capable of operating in the manner intended by management.


6.3. Measurement of cost

The cost is the cash price or the cash price equivalent at recognition date. If payment is deferred beyond normal credit terms, then the cost of the heritage asset is the cash price equivalent. The difference between this amount and the total payments is recognised as interest expense over the period of credit given, unless it is capitalised in accordance with GRAP 5 – Borrowing Costs. Refer to the **accounting guideline GRAP 5** for more detail.

7. SUBSEQUENT MEASUREMENT

7.1. General


An entity should choose either the cost model or the revaluation model for subsequent measurement of an **entire class** of heritage assets.

	<p>Class of heritage assets means a grouping of heritage assets of a similar nature or function in an entity's operations that is shown as a single item for the purpose of disclosure in the financial statements. Examples include:</p> <ul style="list-style-type: none">• Art collections;• Stamp collections;• Collections of rare books and manuscripts;• Historical buildings; or• Historical structures. <p>Note that these are only examples, and it is an entity's choice which classes will be disclosed.</p>
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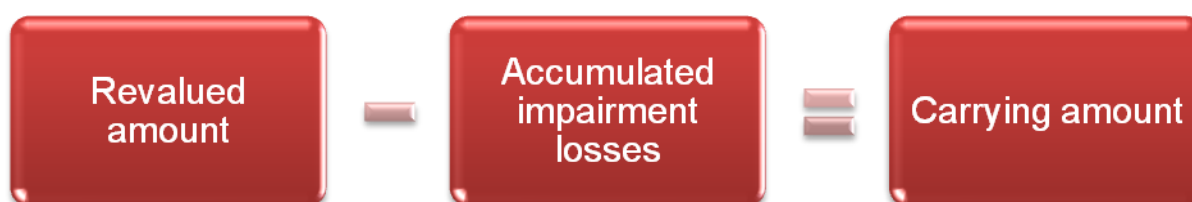
Cost model



When the cost model is used, heritage assets are subsequently carried at cost less any accumulated impairment losses. Entities are, however, still encouraged to disclose the fair value of heritage assets for which the cost model is used.

	<p>Due to the nature of heritage assets, i.e. they are held for an indefinite period, heritage assets are not depreciated, as they do not have a limited useful life. Any diminution in value may also be immaterial.</p>
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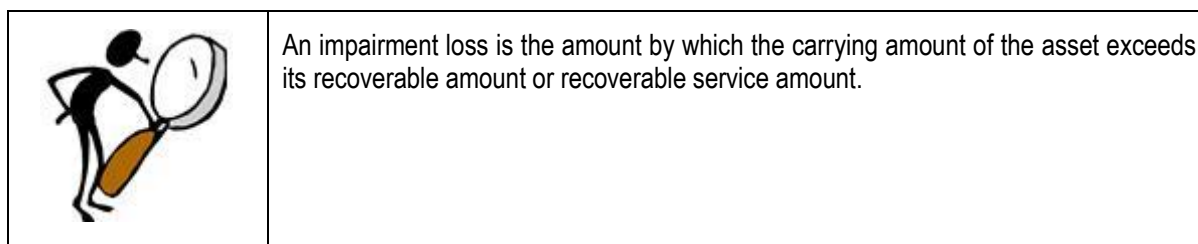
Revaluation model



For subsequent measurement, if the fair value of a class of heritage assets can be measured reliably, then the entity should carry that class of heritage assets at a revalued amount. The revalued amount is the fair value at the date of the revaluation.

7.2. Impairment

As indicated earlier, heritage assets are not depreciated. However, at each reporting date, the entity needs to assess (in accordance with GRAP 26 - Impairment of Cash-generating Assets and GRAP 21 - Impairment of Non-cash-generating Assets) whether or not there is an indication that the heritage assets might be impaired. If there is an indication of impairment, then the recoverable amount or recoverable service amount should be determined in respectively.



When assets are carried at cost under the cost model, any impairment loss or reversal of impairment loss is recognised in surplus or deficit

When assets are carried at revalued amounts, an impairment loss is treated as a revaluation decrease – i.e. is recognised in the revaluation reserve to the extent of a revaluation surplus available. The reversal of an impairment loss previously recognised, should be treated as a revaluation increase – i.e. is recognised in the revaluation reserve (unless it is first recognised in surplus or deficit to reverse a previous impairment loss recognised in surplus or deficit, in which case, only any excess will be recognised in the revaluation reserve).

Refer to **accounting guideline GRAP 21** for guidance on the impairment of non-cash-generating assets and refer to **accounting guideline GRAP 26** for guidance on the impairment of cash-generating assets. These guidelines will provide indicators of impairment that an entity should consider, guidance on how to determine the recoverable amount and recoverable service amount of impaired assets and how to recognise impairment losses and reversals of impairment losses.

7.3. Revaluation model



Important to note when applying the revaluation model:

Revaluations should be made with sufficient regularity to ensure that the carrying amount of the heritage asset does not differ materially from that which would be determined using fair value at the reporting date.

The frequency of revaluation depends on the changes in the fair value of the heritage assets being revalued. For a heritage asset that shows insignificant changes in fair value, it may be necessary to revalue the heritage asset only every three to five years. Heritage assets that experience significant and volatile changes in fair value require annual revaluation. This is an accounting policy choice that has to be made and applied.

When one heritage asset in a class is revalued then the whole class should be revalued (except where the fair value of a specific heritage asset in that same class cannot be determined reliably).

Determining the fair value

In determining the fair value, the entity should consider the following:

- The fair value should be determined without any deductions for transaction costs it may incur on sale or disposal;
- The parties to the transactions should be “knowledgeable” and “willing”.
 - Knowledgeable implies that both the willing buyer and willing seller are reasonably informed about the asset, thus they are informed about the nature and characteristics, its actual and potential uses and market conditions at reporting date;
 - Willing implies that the buyer is not overeager nor determined to buy at any price and the seller is not over-eager nor forced to sell;
- The transaction should take place at arm’s length, therefore the transaction should be between parties that do not have a particular or special relationship. Hence the transaction is presumed to be between unrelated parties;
- When heritage assets are used for more than one purpose, then the fair value should reflect both the heritage value **and** the value obtained from its use in the production or supply of goods or services; and
- When the fair value of a collection is determined, then the entity should consider reassessing the collection’s fair value if the fair value of the individual items is less than the collection’s fair value.

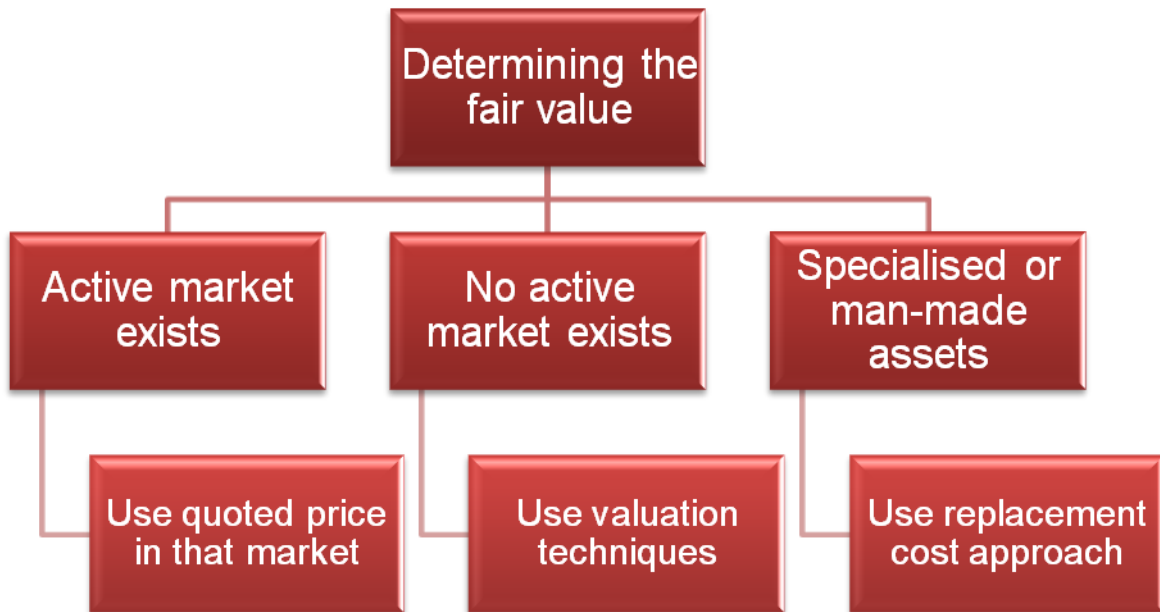


Figure 2 – the 3 methods for determining the fair value of heritage assets

The fair value can be determined by applying one of three methods:

- The best evidence of fair value is given by quoted prices in an active and liquid market, especially published price quotations, such as quoted prices from recent auctions published in local newspapers;
- Should there not be an active and liquid market then a valuation technique may be used. These techniques include:
 - Recent arm’s length transactions between knowledgeable, willing parties;
 - Reference to the current fair value of other heritage assets with substantially similar characteristics in similar circumstances and location adjusted for specific differences; and
- In the case of specialised heritage assets or man-made heritage structures (such as statues or monuments), an entity may need to determine the fair value using a replacement cost approach. The reproduction cost or the restoration cost approach may be the best indicator of the heritage asset’s replacement cost.

	<p>The replacement cost is the cost to replace the service potential of an asset.</p> <p>The reproduction cost is the cost of creating an exact replica of the asset.</p> <p>The restoration cost is the cost that would be incurred in order to bring the asset's service potential back to its pre-impaired level.</p>
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Note that a restriction on the disposal of a heritage asset from a stipulation imposed by the seller or transferor does not prevent or make it impossible for an entity to determine the fair value.

Accounting treatment of increases and decreases in the carrying amount as a result of a revaluation

Revaluation increase or decrease


Under the revaluation model, the difference between the revalued amount and the carrying amount is recognised in the revaluation surplus. In the case of a reversal of an increase previously recognised in revaluation surplus, or a reversal of a decrease previously recognised in surplus or deficit, it will be recognised in surplus or deficit.

An amount recognised in surplus or deficit is shown as an impairment loss.

To summarise:

Annual financial statements	First revaluation	Subsequent revaluation results in an increase in carrying amount	Subsequent revaluation results in a decrease in the carrying amount
In the statement of changes in net assets	Increase in carrying amount of asset is credited against revaluation surplus	Secondly, where no impairment loss available, the increase (or any excess in the case where impairment loss was previously recognised in surplus or deficit) is recognised in revaluation surplus	Firstly, reverse revaluation surplus previously recognised, if any
In the statement of financial performance	Decrease in carrying amount of asset is recognised as impairment loss in surplus or deficit	Firstly, reverse the impairment loss previously recognised in surplus or deficit, if any	Secondly, where no revaluation surplus available, the decrease (or any excess in the case where revaluation surplus was available) is recognised in surplus or deficit

The accounting treatment of revaluation increases and decreases are illustrated in the examples below.

	<p>Example 3: Subsequent increase in carrying amount as a result of a revaluation</p> <p>Entity HTI subsequently measures all heritage assets using the revaluation model. The reporting date of the entity is 30 June. Entity HTI only has two buildings which are classified as heritage assets and their details are as follows:</p>
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Information	Building A	Building B
Acquisition date	1 July 2008	1 July 2008
Acquisition price	2,500,000	1,800,000
Fair value 30 June 2009	2,300,000	2,200,000
Fair value 30 June 2010	2,600,000	2,250,000

The journal entries for Building A would be as follows:

1 July 2008	Debit	Credit
	R	R
Heritage assets	2,500,000	
Bank		2,500,000

30 June 2009	Debit	Credit
	R	R
Impairment loss (surplus or deficit)	200,000	
Heritage assets (R2,500,000 – R2,300,000)		200,000

30 June 2010	Debit	Credit
	R	R
Heritage assets (R2,600,000 – R2,300,000)	300,000	
Reversal of impairment loss		200,000
Revaluation surplus/reserve (net assets)		100,000

The revaluation increase of R300,000 from the prior period to the current period was first allocated against the R200,000 recognised in surplus or deficit in the prior period and the difference was then allocated to the revaluation surplus.

The journal entries for Building B would be as follows:

1 July 2008	Debit	Credit
	R	R
Heritage assets	1,800,000	
Bank		1,800,000

30 June 2009	Debit	Credit
	R	R

Heritage assets (R2,200,000 – R1,800,000)	400,000	
Revaluation surplus/reserve (net assets)		400,000

30 June 2010	Debit	Credit
	R	R
Heritage assets (R2,250,000 – R2,200,000)	50,000	
Revaluation surplus/reserve (net assets)		50,000

No decrease was previously recognised in surplus or deficit, therefore the increase will be credited in the revaluation surplus.



Example 4: Subsequent decrease in carrying amount as a result of a revaluation

Entity HTI subsequently measures all heritage assets using the revaluation model. The reporting date of the entity is 30 June. Entity HTI has only two buildings classified as heritage assets and their details are as follows:

Information	Building A	Building B
Acquisition date	1 July 2008	1 July 2008
Acquisition price	2,500,000	1,800,000
Fair value 30 June 2009	2,700,000	1,700,000
Fair value 30 June 2010	2,200,000	1,650,000

The journal entries for Building A would be as follows:

1 July 2008	Debit	Credit
	R	R
Heritage assets	2,500,000	
Bank		2,500,000

30 June 2009	Debit	Credit
	R	R
Heritage assets (R2,700,000 – R2,500,000)	200,000	
Revaluation surplus (net assets)		200,000

30 June 2010	Debit	Credit
	R	R

Revaluation surplus (net assets)	200,000	
Impairment loss (surplus or deficit)	300,000	
Heritage assets (R2,700,000 – R2,200,000)		500,000

The revaluation decrease of R500,000 from the prior period to the current period was first allocated against the balance available in the revaluation surplus, i.e. R200,000 and the difference was then allocated to surplus or deficit.

The journal entries for Building B would be as follows:

1 July 2008	Debit	Credit
	R	R
Heritage assets	1,800,000	
Bank		1,800,000

30 June 2009	Debit	Credit
	R	R
Impairment loss (surplus or deficit)	100,000	
Heritage assets (R1,800,000 – R1,700,000)		100,000

30 June 2010	Debit	Credit
	R	R
Impairment loss (surplus or deficit)	50,000	
Heritage assets (R1,700,000 – R1,650,000)		50,000

No increase was previously recognised in the revaluation reserve, therefore the decrease will be recognised in surplus or deficit.

Inability to determine the fair value reliably

When the entity selected and applied the revaluation model and the entity is subsequently unable to reliably determine the fair value, then the specific asset for which no fair value can be determined, should be measured using the cost model. This only applies in exceptional circumstances where no market-determined prices or values are available and alternative estimates of the fair value are clearly unreliable.

Only the asset that cannot be fair valued should be **measured according to the cost model**, while the entity should continue to measure all other heritage assets in the class using the revaluation model.

If the fair value of the heritage asset can be determined by reference to an active market at a subsequent date, the revaluation model should again be applied from that date.



GRAP 103 requires that specific disclosure be made in these cases.



Example 5: Inability to determine fair value reliably

Entity TT uses the revaluation model to measure its insect collection as there has always been an active market for these insects. The collection consists of three insect types that were bequeathed to the entity in April 1998. The reporting date of the entity is 31 March. The fair values at 31 March 2009 were as follows: Insects A: R200,000, Insects B: R250,000 and Insects C: R180,000.

There was a turn in the market and Insects A is no longer traded in an active market and after applying different valuation techniques, Entity TT determined that they cannot reliably determine the fair value of Insects A. There were no significant changes in the market for the other insects and therefore at 31 March 2010 the revaluation amounts would remain the same as the prior year.

Accounting treatment:

As the fair value of Insects A cannot be determined reliably, it will be measured using the cost model as from 31 March 2010. At reporting date Entity TT also has to assess whether or not Insects A might be impaired, because there is no active market. The impairment was assessed and the recoverable service amount was determined as R80,000 at reporting date.

The journal entry is as follows:

31 March 2010	Debit	Credit
	R	R
Impairment loss (surplus or deficit)	120,000	
Accumulated impairment losses		120,000

Insects A are now measured under the cost model, therefore the line-item 'accumulated impairment losses' is credited. The deemed cost of the heritage asset will be its revalued amount.

Note that Entity TT does not have to change the subsequent measurement model for the other insects.

Assume the following additional information:


Should Entity TT be able to reliably determine the fair value of Insects A in a subsequent period, then it should again apply the revaluation model from that date.

For example, assume that in the reporting period ended 31 March 2014, the market for


	Insects A picked up again and the fair value was determined to be R205,000.	
	Accounting treatment:	
	Entity TT now needs to recognise the increase in the carrying amount to the revaluation reserve, but only to the extent that it exceeds the impairment loss previously recognised.	
	The journal entry would be as follows:	
31 March 2014	Debit	Credit
	R	R
Accumulated impairment losses	120,000	
Heritage assets	5,000	
Reversal of impairment loss (surplus or deficit)		120,000
Revaluation surplus/reserve (net assets)		5,000

7.4. Subsequent costs

Under the recognition principle, entities do not recognise in the carrying amount of heritage assets the costs of the day-to-day servicing of such assets. Rather, these costs are recognised in surplus or deficit when incurred. Costs of day-to-day servicing are primarily the cost of inspecting the heritage assets, cost of labour and consumables, and may include the cost of minor parts or repairs. The purpose of these expenditures is often described as for the 'repairs and maintenance' of the asset.

	<p>Example 6: Day-to-day service cost</p> <p>The entity incurs operating costs to maintain an air conditioning system in a library that is necessary to ensure that the books are kept in a good condition. This operating expense is expensed as incurred.</p>
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Costs incurred to **enhance or restore** the heritage asset to preserve its indefinite useful life should be capitalised as part of the carrying amount of the heritage asset. These costs should be recognised only if the recognition criteria are met.

	<p>Example 7: Restoration cost</p> <p>The government decides to restore an old theatre which is in a poor condition, to preserve it for future generations.</p> <p>These costs incurred to restore the theatre can be capitalised to the carrying amount of the asset, if it meets the recognition criteria.</p>
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Repairs and maintenance vs. enhancement/restoration

As indicated above, the cost of day-to-day servicing, i.e. repairs and maintenance is expensed when incurred.

Only costs incurred to **enhance or restore** the heritage asset to preserve its indefinite useful life, can be capitalised if they meet the recognition criteria.

If there is uncertainty as to whether the costs incurred relating to an asset should be expensed or capitalised, the following can be considered, and if the answer is yes to one or more, the cost should be capitalised:

- Does the cost incurred satisfy the recognition criteria?
- Will the cost restore or enhance the asset to preserve it?
- Is the cost incurred **not** primarily for labour, consumables or small parts?
- Is the cost incurred to replace a significant part of the asset?

7.5. Compensation received from third parties

When compensation is expected from third parties for heritage assets that were impaired, lost or given up, it is included in surplus or deficit when the compensation amount becomes receivable.



The loss or impairment of an asset and the compensation received from third parties (i.e. insurance payments) are separate economic events and hence the transactions have to be accounted for and disclosed separately. The transactions should not be netted off. The loss on disposal/impairment of an asset will therefore be shown separately from the insurance payments received as compensation in the statement of financial position.

For example:

Extract out of the statement of financial performance	Notes	20x1	20x0
Revenue			
Compensation received	–	200,000	
insurance claim paid out	x		
Other revenue		XX	XX
Expenses			
Loss on disposal of assets	x		(50,000)
Impairment loss on assets	x	(60,000)	
Other expenses		(XX)	(XX)

8. TRANSFERS

Transfers are when assets are being transferred to or from heritage assets.

Transfers **from** heritage assets can only be made when an asset no longer meets the definition of a heritage asset. For example, the entity has a building that was initially classified as a heritage asset, but now the entity uses a significant portion of it for offices, thus the entity should classify the building as property, plant and equipment.

Transfers **to** heritage assets can only be made when an asset subsequently meets the definition of a heritage asset. For example, a work of art was initially acquired for decorative purposes and recorded as property, plant and equipment, but now the entity decided to preserve the artwork due to its artistic significance after the death of the artist. Another example, an entity developed a formula for scientific purposes which is recorded as an intangible asset, and after one year, the formula became of scientific significance due to the fact that this was the only of its kind in Africa.

The deemed cost at date of transfer from heritage assets

When a heritage asset is transferred, the asset is recognised in terms of GRAP 103 up to the date of transfer.

Where an entity uses the cost model, the carrying amount of the asset transferred, or its cost for measurement or disclosure purposes, does not change when an asset is transferred from heritage assets to property, plant and equipment, intangible assets, investment property or inventory.

For transfers from heritage assets carried at revalued amount, i.e. when the revaluation model is used, to property, plant and equipment, intangible assets, investment property or inventory, the asset's deemed cost, for subsequent accounting, is the revalued amount of the heritage asset on the date of transfer.

Any difference, between the carrying amount and the fair value of the heritage asset on the date of transfer, is treated in the same way as a revaluation.



Example 8: Transfer from heritage assets at revalued amount to property, plant and equipment when using the revaluation model

Entity MNM started to restructure its business in September 2009. Previously Entity MNM acquired a property which was classified as a heritage asset. On 1 November 2009 Entity MNM moved its offices into the heritage asset building, which resulted in a significant portion of the building being used for administrative purposes. The carrying amount of the property on the date of transfer was R760,000 and the fair value R780,000.

Entity MM needs to apply GRAP 103 until transfer date and therefore the carrying amount should be adjusted to R780,000, before the asset is transferred to property, plant and equipment.

Journal entries:

The journal entries will be as follows:

1 November 2009	Debit	Credit
	R	R
Heritage assets	20,000	
Revaluation surplus		20,000
Adjust carrying amount of heritage asset		

1 November 2009	Debit	Credit
	R	R
Property, plant and equipment	780,000	
Heritage assets		780,000
Transfer asset to property, plant and equipment		

F.A.Q

How should entities account for heritage assets that were previously accounted for in terms of the Standard of GRAP on Property, Plant and Equipment and where the deemed cost was determined in terms of Directive 7 on the Application of Deemed Cost on Adoption of Standards of GRAP?

Answer:

The Standard of GRAP on Heritage Assets was issued in July 2008 but only became effective on 1 April 2012. Prior to this date, entities had an option to account for heritage assets by either applying the principles in the Standards of GRAP on Property, Plant and Equipment (GRAP 17) or Heritage Assets (GRAP 103). In terms of GRAP 17 an entity was not required to recognise heritage assets which would otherwise meet the recognition criteria for property, plant and equipment. If an entity did however recognise heritage assets, it was not necessary to apply the measurement principles of GRAP 17, but the disclosure requirements of GRAP 17 had to be applied.

Where an entity had applied Directive 7, and determined a deemed cost for the asset on initial recognition of the asset using the Standards of GRAP (in this case GRAP 17), the entity is not required to determine the deemed cost again on initial recognition of the asset using GRAP 103 provided that the deemed cost was determined appropriately. The measurement date for the adoption of the Standard of GRAP is 1 April 2012.

Except for entities that early-adopted GRAP 103, entities can apply the transitional provisions and therefore have three years within which to fully comply with the requirements of GRAP 103. The three year transitional period ends on 31 March 2015 (PFMA) and 30 June 2015 (MFMA). Entities that early-adopted GRAP 103 cannot adopt the transitional provisions again.

It is also important to note that the guidance on transfers included in GRAP 103 is only applicable when there has been a change in intention in the manner in which management intends to hold an asset, for example from property, plant and equipment to heritage assets. The scenarios presented below represent a change in accounting policy rather than a change in intention.

The option to apply either GRAP 17 or GRAP 103 resulted in four possible scenarios:


1. The entity applied the principles in GRAP 103 and considered the recognition,

	<p>measurement and disclosure requirements of that Standard in accounting for heritage assets;</p> <ol style="list-style-type: none"> 2. The entity applied the principles in GRAP 17 not to recognise heritage assets; 3. The entity applied the principles in GRAP 17 to recognise heritage assets and to measure the heritage assets in accordance with the measurement requirements of GRAP 17; or 4. The entity applied the principle in GRAP 17 to recognise heritage assets, but did not apply the measurement requirements of GRAP 17. <p>Since GRAP 103 became effective, entities that were applying GRAP 17 no longer have the option to account for heritage assets in terms of GRAP 17. GRAP 103 becoming effective has the following implications for the recognition and measurement of heritage assets previously dealt with according to the four scenarios described above:</p> <p><u>Scenario 1:</u> the entity applied the principles in GRAP 103 and considered the recognition, measurement and disclosure requirements of that Standard in accounting for heritage assets.</p> <p>The entity would continue to apply GRAP 103 and the value of the heritage assets would be the value as determined at initial adoption of GRAP 103. Two types of entities fall under this scenario:</p> <ul style="list-style-type: none"> - Entities that early adopted GRAP 103; or - Entities that considered GRAP 103 in developing an accounting policy. <p><u>Scenario 2:</u> The entity applied the principles in GRAP 17 not to recognise heritage assets.</p> <p>These entities should recognise heritage assets in terms of GRAP 103; and may apply Directive 7 where the acquisition cost of the heritage asset is not available on adoption of GRAP 103.</p> <p><u>Scenario 3:</u> the entity applied the principles in GRAP 17 to recognise heritage assets and to measure the heritage assets in accordance with the measurement principles of GRAP 17.</p> <p>These entities should recognise heritage assets at the cost or deemed cost, as determined when GRAP 17 was adopted, provided that cost/deemed cost was determined appropriately.</p> <p>With reference to subsequent measurement, the requirements in GRAP 17 and GRAP 103 dealing with impairment and revaluation are similar, but differ with regard to depreciation (GRAP 17 requires assets to be depreciated, whereas GRAP 103 does not).</p> <p>The different subsequent measurement principles in GRAP 17 vs. GRAP 103 represent a change in accounting policy that should be accounted for retrospectively in terms of GRAP 3. Therefore, any accumulated depreciation provided for on heritage assets under GRAP 17 should be reversed retrospectively on adoption of GRAP 103. In essence, on adoption of GRAP 103 entities will continue with the cost/deemed cost and any impairment and revaluation implications resulting from the application of GRAP 17, but should reverse any GRAP 17 accumulated depreciation.</p> <p><u>Scenario 4:</u> the entity applied the principles in GRAP 17 to recognise heritage assets, but did not apply the measurement principles of GRAP 17.</p> <p>The accounting implications depend whether or not the value at which the heritage</p>
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	<p>assets were recognised was the actual cost/deemed cost or some other amount not in accordance with GRAP 17 or 103.</p> <p>If the actual cost/deemed cost was determined appropriately on adoption of GRAP 17, then the accounting treatment will be similar to scenario 3 above. If the heritage assets were recognised at another amount, the accounting treatment will be similar to scenario 2 above.</p>
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When a heritage asset carried at revalued amount is transferred to property, plant and equipment, intangible assets or investment property measured using the cost model, the revaluation reserve included in net assets in respect of the heritage asset should be transferred to accumulated surplus when the related asset is subsequently derecognised.

When a heritage asset carried at revalued amount is transferred to inventories, the revaluation reserve included in net assets in respect of the heritage asset should be transferred to accumulated surplus as the inventory is subsequently used.

	<p>Example 9: Transfer from heritage assets to inventory</p> <p>Entity ART acquired an art collection which it classified as heritage assets measured at revalued amount. At reporting date 31 March 2009 the revalued amount was R1,000,000. During the 2010 reporting period, the entity restructured its operations so that the entity now has a separate department that trades in art and the entity decided to include their current art collection in the inventory to be sold. At the date, i.e. 31 March 2010, when the collection was transferred to inventory, the revalued amount was R1,050,000.</p> <p>Additional information:</p> <p>The revaluation reserve as at 31 March 2009 for the art collection was R300,000. Assume that the collection consists out of 10 paintings of equal value. In April 2010 the entity sold the first two paintings.</p> <p>Entity ART is required to recognise the collection in terms of GRAP 103 until the date of transfer to inventory.</p> <p>Journal entries:</p> <p>The journal entries will be as follows:</p> <table border="1" style="width: 100%; margin-top: 10px;"> <thead> <tr style="background-color: #c00000; color: white;"> <th style="text-align: left;">31 March 2010</th> <th style="text-align: center;">Debit</th> <th style="text-align: center;">Credit</th> </tr> <tr> <td></td> <th style="text-align: center;">R</th> <th style="text-align: center;">R</th> </tr> </thead> <tbody> <tr> <td>Heritage assets</td> <td style="text-align: right;">50,000</td> <td></td> </tr> <tr> <td>Revaluation surplus</td> <td></td> <td style="text-align: right;">50,000</td> </tr> <tr> <td colspan="3">Adjust carrying amount of the heritage asset on date of transfer</td> </tr> </tbody> </table> <p>The collection is then transferred at the revalued amount (fair value) which becomes the cost amount of inventory.</p>	31 March 2010	Debit	Credit		R	R	Heritage assets	50,000		Revaluation surplus		50,000	Adjust carrying amount of the heritage asset on date of transfer		
31 March 2010	Debit	Credit														
	R	R														
Heritage assets	50,000															
Revaluation surplus		50,000														
Adjust carrying amount of the heritage asset on date of transfer																

31 March 2010	Debit	Credit
	R	R
Inventory	1,050,000	
Heritage assets		1,050,000
Transfer heritage assets to inventory		
 Subsequently:		
<p>When the entity sells/uses the inventory, it should transfer the portion of the revaluation surplus in respect of the artwork to the accumulated surplus/deficit. Thus, for the two paintings sold, the entity should transfer the portion (in relation to the value of each painting) of the revaluation surplus to the accumulated surplus. The reserve before any paintings were sold amounted to R350,000 (R300,000 + R50,000). Thus the portion per painting is R35,000 (R350,000 / 10).</p>		
 Journal entries:		
The journal entry will be as follows:		
30 April 2010	Debit	Credit
	R	R
Revaluation surplus (R35,000 x 2 paintings)	70,000	
Accumulated surplus/deficit		70,000
Transfer the portion of revaluation surplus related to paintings sold to accumulated surplus/deficit		
<p>The same principle applies where an entity transfers heritage assets, measured under the revaluation model, to property, plant and equipment, intangible assets or investment property, measured under the cost model.</p>		

The deemed cost at date of transfer to heritage assets

When an asset is transferred to heritage assets the assets are recognised in terms of the applicable accounting standard up to the date of transfer.

Where an entity uses the cost model, transfers to heritage assets do not change the carrying amount of the asset transferred, or its cost for measurement or disclosure purposes.

If an item of property, plant and equipment or an intangible asset carried at revalued amount, (i.e. revaluation model is used), or investment property carried at fair value, (i.e. fair value model is used), is reclassified as a heritage asset carried at revalued amount, the deemed cost is the fair value on the transfer date.

Refer to **Example 8** above for a transfer to property, plant and equipment from heritage assets when using the revaluation model (the same principle applies, it is now only a transfer to heritage assets).

Any difference, between the carrying amount and the fair value of the related asset on the date of transfer, is treated in accordance with the standard of GRAP applicable to the related asset.

For the transfer of inventory or investment property carried at fair value to heritage assets carried at revalued amount, any difference between the fair value on the transfer date and its previous carrying amount should be recognised in surplus or deficit (this is because inventory used and fair value adjustments on investment property is recognised, in accordance with the applicable standards of GRAP, in surplus or deficit).



Example 10: Transfer from inventory to heritage assets (to be measured under the revaluation model)

Entity ART acquired an art collection which it classified as inventory measured at cost. At reporting date 31 March 2009, the carrying amount of unsold paintings was R1,000,000. During the 2010 reporting period, the entity discovered that the art collection has become of historical significance as the artist who painted the paintings has passed away, and the paintings' values have increased significantly as a result.

The art collection meets the definition of heritage assets, and consequently Entity ART needs to transfer the art collection from inventory to heritage assets on that date. On 31 March 2010, when the collection was transferred, the carrying amount was R900,000 and the fair value of the collection was R2,000,000.

Entity ART is required to recognise the collection in terms of GRAP 12 until the date of transfer to heritage assets.

Journal entries:

The journal entries will be as follows:

31 March 2010	Debit	Credit
	R	R
Heritage assets	2,000,000	
Inventory		900,000
Fair value adjustment (surplus or deficit)		1,100,000
Transfer inventory to heritage assets and recognise difference between fair value and carrying amount on date of transfer in surplus or deficit		

Additional information:

Assume the revalued amount of the collection now treated as heritage assets in the 2011 reporting period increased to R2,500,000.

The journal entries will be as follows:


31 March 2011	Debit	Credit
	R	R
Heritage assets	500,000	
Revaluation surplus		500,000

	Adjust revalued amount of the heritage assets and recognised increase in the revaluation surplus
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9. DERECOGNITION

The carrying amount of heritage assets should be derecognised:

- On disposal; or

	<p>A disposal can be, for example, when an asset is:</p> <ul style="list-style-type: none"> • sold; • donated; • transferred, etc.
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- When no future economic benefits or service potential are expected from its use or disposal.

The gain or loss on disposal of a heritage asset is determined as follows:




Figure 3 – calculation of gain or loss on disposal of asset

The gain or loss is recognised in surplus or deficit when the asset is derecognised.

If the heritage asset was carried at revalued amount then the revaluation surplus of the heritage asset disposed is recognised in accumulated surplus or deficit.

The net proceeds received or receivable on disposal is initially recognised at fair value. Thus when payment is deferred, the proceeds received is recognised as the cash price equivalent. The difference between the cash price equivalent and the nominal amount is recognised as interest revenue. Refer to **accounting guideline GRAP 9** for the recognition and measurement of revenue from the sale of assets and interest (when cash inflow is deferred).

	<p>Example 11: Derecognition of heritage assets</p> <p>Entity REST has a collection of rare books which is classified as heritage assets in its financial records. After careful consideration Entity REST made a decision to sell this rare collection. A potential buyer was found on the 25th of November 20x0 and after several meetings a sale agreement was signed on the 28th of January 20x1.</p> <p>The following information pertains to the example:</p> <table border="1" style="width: 100%;"> <tr> <td style="width: 70%;">Carrying amount on 25 November 20x0</td> <td style="width: 30%; text-align: right;">R650,000</td> </tr> </table>	Carrying amount on 25 November 20x0	R650,000
Carrying amount on 25 November 20x0	R650,000		

Carrying amount on 28 January 20x1	R625,000
Carrying amount on 15 February 20x1	R620,000
Selling price	R1,500,000
The entity's reporting date is 31 March.	

The agreed selling price is a cash price of R1,500,000, however the buyer does not have the full amount in cash and it was therefore agreed that the buyer pay Entity REST R500,000 cash, which was paid on 15 February 20x1 and the remaining balance will be paid over 12 months in equal instalments of R88,615, with first payment due on 31 March 20x1. The agreement stipulates that the buyer will take control of the books once the cash amount of R500,000 is paid.

Based on above:

The transaction date for disposal of the rare books is the 15th of February 20x1, as this is the date that the significant risks and rewards of ownership were transferred to the buyer. The payment is deferred and therefore the proceeds should be recognised as the cash price, which is R1,500,000.

For the deferred portion, the difference between the cash equivalent (R1,000,000) and the nominal amount (R1,063,380 = 12 months x R88,615) should be recognised as interest revenue over the period of the credit.

The effective interest rate is calculated as 11,5% (using the formula - PV = R1,000,000, n = 12, PMT = -R88,615 on a financial calculator).

Journal entries:

The journal entries for the disposal will be as follows:

15 February 20x1	Debit	Credit
	R	R
Bank	500,000	
Receivables	1,000,000	
Heritage assets		620,000
Gain on disposal of heritage assets		880,000

31 March 20x1	Debit	Credit
	R	R
Bank	88,615	
Receivables		88,615
Recognise the first instalment received		

31 March 20x1	Debit	Credit
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		R	R
	Receivables	9,583	
	Interest revenue (R1,000,000 x 11.5% / 12 months)		9,583
	Recognise the interest earned for the month of March 20x1		

10. DISCLOSURE

An example illustrating the disclosures required for heritage assets (refer to the standard for detail):

Extract from *Statement of Financial Position*

	Notes	20x1	20x0
		R	R
Non-current assets			
Heritage assets	2	XX	XX
<div style="border: 2px solid red; padding: 5px; margin: 10px 0;"> Take note that "Heritage assets" is a separate line item in the statement of financial position - it does not form part of Property, plant and equipment. It also requires its own accounting policy and note. </div>			
Net assets			
Revaluation reserve	3	XX	XX

Accounting policies

1.4 Heritage assets

Accounting policy should include as a minimum:

- Recognition criteria;
- Measurement basis (initial and subsequent).

Extract from *Notes to the Financial Statements*

	20x1	20x0
	R	R
2. Heritage assets		
<i>[For each class of heritage assets recognised]</i>		
Opening balance	XXX	XXX
Cost / Revalued amount	XX	XX
Accumulated impairment losses	(XX)	(XX)
Additions	XX	XX
Increase / (decrease) due to revaluation	(XX)	(XX)
(Impairment loss) / reversal of impairment loss	(XX)	(XX)
Disposals	(XX)	(XX)
Transfer to or (from) heritage assets	XX	(XX)
Closing balance	XXX	XXX

Cost / Revalued amount	XX	XX
Accumulated impairment losses	(XX)	(XX)

Additional disclosure should be made, for example:

The existence and amounts of restrictions on title and disposal of heritage assets.

Heritage assets pledged as securities for liabilities.

The amount of contractual commitments for the acquisition, maintenance and restoration of heritage assets.

*Details on heritage assets (or a class of heritage assets) not recognised because a reliable measurement was not possible on **initial recognition**. The details should include a description of the heritage assets, reason why the heritage assets could not be measured reliably and on disposal thereof, any compensation received from third parties.*

Additional information on heritage assets carried at cost (under the cost model) due to its fair value not being reliably determinable. The details should include a description of the heritage assets, explanation why the fair value cannot be determined reliably and on disposal thereof, details on the disposal.

Details on heritage assets previously carried at cost due to its fair value not being reliably determinable and now carried at revalued amounts due to its fair value being reliably determined. The details should include a description of the heritage assets, explanation why the fair value has become reliably measurable and the effect of the change.

The class of heritage asset that were revalued by an independent sworn appraiser (if so) on which date, method used to determine the fair value and significant assumptions applied.

Details on the carrying amount of each class of heritage assets retired from active use and held for disposal.

Note that the disclosure above is only for example purposes; it does not cover all the disclosure required by GRAP 103. This disclosure also assumes that the entity applies both the cost and revaluation model for its classes of heritage assets.

3. Revaluation reserve

Opening balance	XXX	XXX
Increase/ (decrease) in revaluation for the period	XX	(XX)
Disposals	(XX)	(XX)
Closing balance	XXX	XXX

Disclosure of any restrictions on the distribution of this balance to owners of the net assets.



A significant amount of narrative information is also encouraged to be disclosed. An entity should use judgement in deciding whether the information will provide more useful and relevant information if disclosed, and if so, should provide the disclosure.

Some of the disclosure is also only required to the extent that the information is available. Refer to GRAP 103 for detail.

11. ENTITY-SPECIFIC GUIDANCE

Entity-specific guidance has been included where appropriate to provide specific guidance on a subject that only relates to those types of entities.

11.1. Departments

11.2. Municipalities

Illustrative example A – accounting for library books

In order for a municipality to determine the correct accounting treatment of library books, the following steps should be taken:

Consider whether the municipality controls the library books or whether it is under the control of another party.



Consider the nature and use of the library books to formulate the appropriate accounting policy regarding library books.

Figure 4 – determining the accounting treatment of library books

Detailed approach:

Assessing control:

Library books should only be accounted for if it is **controlled** by the municipality. Control means that a municipality has the ability to exclude or regulate the access of others to the benefits of an asset. To assess control, a municipality should consider factors that indicate:

- whether the municipality controls the library books; and
- its role and responsibility in providing community libraries.



The municipality should consider the following indicators of control:

- whether the economic benefit or service potential will flow to the municipality;
- whether the municipality is responsible for replacing the library books;
- whether the municipality can restrict access and use of libraries by third parties;
- whether the municipality has the right to dispose of the library books;

	<ul style="list-style-type: none"> • legislation; and • binding arrangements, for example library books may be donated to the municipality for a specified period.
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After considering the indicators of control and if the municipality has concluded that it has control over the library books, then it should consider whether to account for the library books as expenses, property, plant and equipment or heritage assets.

Accounting treatment for library books:


As the nature and use of library books will differ among municipalities, each municipality should carefully assess the criteria related to the nature and use of the library books based on its own circumstances.

Once the nature and use is established, a municipality can then conclude whether to account for library books as property, plant and equipment, expenses or heritage assets. The definition of each of the items should be considered to determine whether it should be accounted as such.

Library books are held to provide a service to the community and may be used for more than one reporting period. Such library books should be classified as property, plant and equipment in accordance with GRAP 17 – Property, Plant and Equipment. It would be appropriate to aggregate the value of library books and capitalise the aggregated value.

Where the municipality does not expect that the use of library books will exceed the current reporting period, it should be recognised as an expense.

If library books meet the definition of heritage assets, it should be accounted in accordance with GRAP 103. Consequently, a municipality may find itself in a situation where some library books are accounted for as property, plant and equipment and some are accounted for as heritage assets.

	<p>Example 12: Library books</p> <p>Entity H recently purchased the private book collection from a well read professor at a cost of R5 million. These books will be added to the current collection in the public library within control of the entity.</p> <p>Included in the collection, books to the value of R2 million were collected from various locations around the world. These books were scarce copies from various ancient civilisations and limited copies could be found. Due to the advance in technology today, and degrading of general literacy of the population in the area, no publishers are willing to reproduce these books. Thus, entity H has decided that these books will be retained and will only be available to universities for research purposes. The general public will not be allowed to take it out; it can only be viewed in the library. It is expected that these books will be held for an indefinite period, unless destroyed by circumstances beyond human control.</p> <p>Included in the collection, books of varying nature (amounting to R2,5 million) will be available to the general public and it is expected to be used for more than one reporting period. These books are not scarce, there is a market price for them and</p>
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	<p>can easily be replaced.</p> <p>Lastly, there are children books amounting to R500,000, these books are easily damaged by the kids who visit the library and are replaced often, it is not expected to be used for more than one reporting period.</p> <p>Accounting treatment:</p> <p>The information has indicated that the entity has control over these books, thus it should be accounted for by the entity.</p> <p>The collection of scarce books of R2 million will qualify for recognition as heritage assets and should therefore be accounted for in accordance with GRAP 103.</p> <p>The second collection of books will not qualify for recognition as heritage assets, but are expected to be used for more than one reporting period and will therefore qualify as property, plant and equipment and be accounted for in accordance with GRAP 17.</p> <p>The remaining collection of children books will be expensed.</p>
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12. SUMMARY OF KEY PRINCIPLES

GRAP 103 sets out the principles for the accounting treatment and disclosure of heritage assets.

12.1. Identification

Some characteristics often displayed by heritage assets that an entity can consider in determining whether an asset should be accounted for as a heritage asset:

- Their value in cultural, environmental, educational and historical terms is unlikely to be fully reflected in monetary terms;
- The value of these assets tend to increase over time even if their physical condition deteriorates;
- They are often irreplaceable;
- They have indefinite useful lives and their value appreciates over time due to their cultural, environmental, historical, natural, scientific, technological or artistic significance;
- Ethical, legal and/or statutory obligations may impose prohibitions or severe stipulations on disposal by sale;
- They are protected, kept unencumbered, cared for and preserved.

12.2. Recognition

An item is recognised as a heritage asset in terms of GRAP 103 when:

- It meets the definition of an asset;
- it meets the definition of a heritage assets;
- it is probable that future economic benefits or service potential associated with the asset will flow to the entity; and
- its cost or fair value can be measured reliably.

12.3. Measurement

Heritage assets should initially be measured at cost or fair value.

Where heritage assets are acquired for no cost or nominal cost, its cost should be measured at its fair value as at date of acquisition.

For subsequent measurement the entity has a choice between the cost model and the revaluation model. If the fair value of a class of heritage assets can be measured reliably all the assets in that class should be measured using the revaluation model. The only exception is if the fair value of a specific heritage asset in that class cannot be determined reliably, then GRAP 103 allows an entity to measure that asset under the cost model until such time as the fair value can again be reliably determined.

Heritage assets are not depreciated.

Cost model:

- Cost or fair value less accumulated impairment losses

Revaluation model:

- Revaluation value less accumulated impairment losses;
- The revalued amount is taken to the revaluation surplus in net assets (except in the case of reversals).

Costs of day-to-day servicing, i.e. repairs and maintenance are expensed, only costs

incurred to enhance or restore an asset to preserve its indefinite useful life can be capitalised if it meets the recognition criteria.

12.4. Derecognition

An asset is derecognised when it is disposed of or when no future economic benefits or service potential is expected. Any gain or loss is recognised in surplus or deficit.