

**Annual Financial  
Statements 2021/22**

**FREQUENTLY ASKED QUESTIONS  
(FAQs)**

**Modified  
Cash Standard**



**national treasury**

Department:  
National Treasury  
**REPUBLIC OF SOUTH AFRICA**



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## 1. Introduction

The Frequently Asked Questions (FAQs) are based on queries commonly received from the stakeholders involved with preparation and finalisation of financial statements in accordance with the Modified Cash Standard (MCS). These FAQ's should be considered for preparation and finalisation of the Annual Financial Statements for the 2020/21 financial year and reporting periods thereafter.

These FAQs are not authoritative and do not form part of the Modified Cash Standard (MCS). Any examples provided are illustrative only and do not represent a comprehensive list of scenarios or circumstances that may exist in practice. As a result, the examples are not prescriptive and should not be used by analogy to other circumstances unless expressly stated otherwise.

## 2. Frequently Asked Questions (FAQs)

### CHAPTER 11: Capital Assets

#### **11.1 How should a department adjust its financial statements for the recording of Class 1 and Class 2 roads?**

According to Chapter 11 on Capital Assets, national and provincial custodians must record and report all Class 1 and Class 2 roads in their annual financial statements for the financial year ending 31 March 2022 [MCS 11, Appendix A par 2.4].

To this end, national and provincial custodians must adjust their financial statements for the 2021/2022 financial year as follows:

- For road Class 1 and 2 completed on or before 31 March 2020: by adjusting the opening balance of immovable tangible capital assets for the year ended 31 March 2021 [note 41.1 in the Specimen Annual Financial Statements];
- For road Class 1 and 2 completed after 31 March 2020: by recording the completed asset as an addition in the year in which the road was ready for use [MCS 11 par .90]

The national / provincial department should include a narrative explaining the nature and extent of the adjustment, i.e. that roads have now been recorded and that the department previously took advantage of the transitional provisions delaying the recording of class 1 and class 2 roads in its annual financial statements.

Any subsequent expenditure incurred on these Class 1 and 2 roads in either the 2020/2021 or 2021/2022 financial year shall be reflected as additions in that year.

#### **11.2 At what value should the Class 1 and Class 2 roads be recorded in the financial statements?**

National and provincial custodians should apply the measurement requirements in Chapter 11, specifically that roads should be measured at cost or fair value where the cost cannot be determined reliably [MCS 11 par .69 and .72]. The measurement principles are applied to each immovable asset (or road) rather than per asset class.

Information is reliable when it does not contain material errors and is free from bias [MCS 2 par .27]. Reliable information will be complete, within the bounds of materiality and cost [MCS 2 par .28].

The cost of a road is thus reliable when it is complete and free from material errors. A department reverts to fair value when it has made every reasonable effort to obtain the complete historical cost information, or where the recreation thereof would be too expensive and time consuming.

Where a department applies fair value, the fair value is determined on the date of adjustment to the annual financial statements, i.e., on 1 April 2020 or 1 April 2021 (see FAQ above). The same applies when a department records the roads at cost.

If a department has only the fair value of roads on a later date, then it may use this value but should consider whether any significant adjustments to the fair value is required to roll back the amount to the recognition date.

### **11.3 How to recognise roads that have segments on multiple road classes, i.e not only class 1 and 2?**

National and provincial custodians can recognise the entire road irrespective of the class and therefore choose to recognise the classes other than class 1 and 2 earlier than the exemption period allowed for. This will only apply where there are roads on multiple classes which includes class 1 and 2.

This is best illustrated by an example. A road in KwaZulu-Natal P34-1 has the following segments as shown in the table below:

<b>ROAD NUM</b>	<b>FROM</b>	<b>TO</b>	<b>RCAM</b>
P34-1	0.000	20.213	R3
P34-1	20.213	26.380	R2

The KwaZulu-Natal Department of Transport will recognise the entire 26.380km of the road in respect to the principles as outlined above, i.e. valuation of class 1 and 2 roads.

## **AFS Specimen and AFS Template**

### **21.1 What are the changes made to the Appropriation Statement requirements for the 2021/22 financial year?**

The AFS Specimen is the document that assists departments to uniformly prepare and publish financial statements. The appropriation statement forms an integral part of the financial statements. The level of disaggregation was considered to determine the appropriate detail to be presented by departments in the appropriation statement. The requirements were also compared to those of GRAP 24 on Presentation of Budget Information in Financial Statements in consultation with the Provincial Treasuries. Following the analysis, the appropriation statement was reduced by excluding information, such as presenting sub-programme details.

The AFS Template is an MS Excel tool to assist departments to collate the information required for the financial statements. Its pre-set formulae and format are to facilitate the

calculation and location of financial statement items. The appropriation statement in the AFS Template is also used by several stakeholders, including the Budget Office within National Treasury, to obtain final budget and spending information per programme and subprogramme. The information from the AFS Template can be used to populate the AFS Specimen. The AFS Template requirements for the appropriation statement are unchanged from prior years and should be completed by departments for submission to the relevant stakeholders as in the past years.