Does accounting practice still make us "GAAP"?
By Clint Riddin

For those readers who do not understand Afrikaans, the word "gaap" means to yawn, and since some people believe accounting is boring, the reference to GAAP seemed appropriate. Why anyone would find this topic boring, however, is beyond me. The thrill of balancing is an indescribable high.

For some time now, South Africa has been aligning itself with the International Financial Reporting Standards (IFRS), which means **we will soon stop using and referencing Generally Accepted Accounting Practice** (GAAP).

Full IFRS compliance is very onerous and costly, and is not an appropriate accounting standard in many instances for many types of business, such as sole traders, partnerships and others. This argument can also extend to bodies corporate and home owners' associations.

For some time, South Africa used an accounting standard that was referred to as GAAP for SMEs to give smaller entities an alternative, and it was this standard that seemed to be the best fit for bodies corporate. In August 2009, South Africa adopted IFRS for SMEs, which is similar in many ways to GAAP for SMEs and has now scrapped the local standard.

We refer to IFRS for SMEs as the "**best fit**" for sectional title as full IFRS compliance is seemingly not necessary, but governance and reporting aspects are key in scheme management and so a good reporting standard is necessary. However, in our view, s**ome accounting aspects in sectional title are not applicable and so there is a need to deviate from IFRS for SMEs**.

One such standard is the treatment of fixed assets and depreciation; as a body corporate is not a trading entity, and given that the tax aspects and treatment are very different, there is no need to depreciate assets. So, the full cost should be expensed when any asset is acquired or built. There are exceptions to this suggested treatment, such as fixed property.

PMR 37(1) of the Sectional Tiles Act still refers to financial statements being prepared in accordance with generally accepted accounting practice; given that this standard has been replaced with IFRS, it could be argued that all bodies corporate should have financial statements prepared in compliance with full IFRS, at great expense.

Perhaps this aspect should be amended to at the very least IFRS for SMEs. But a better consideration may be to revisit the needs of users of sectional title financial information and adopt a more meaningful reporting standard that is appropriate and informative. Another reporting standard is possible provided that the basis on which the financial statements have been prepared has been set out clearly.

Consideration should be given to aspects such as compliance with rules, proper determination of levies, and compliance with any section 39(1) restrictions or directions which may have been given to trustees by members in general meeting. Treatment of assets

and what constitutes an asset should also be defined. These are just a few of the possible inclusions to a changed reporting standard.

Clint Riddin of Clint Riddin & Associates is a sectional title accountant specialised in accounting, income tax and secretarial services to bodies corporate. Clint is the Course Convener of the 5-week online **Sectional Title Bookkeeping course**, which starts on 16 August 2010. This course includes information on **IFRS**, the latest amendments to accounting practice, the legal aspects of sectional title bookkeeping and much more. Contact Kate on 021 685 4775 or kate@paddocks.co.za for more information.