ACCOUNTING STANDARDS BOARD

RESEARCH PAPER

IMPACT OF IFRS 15 *REVENUE FROM CONTRACTS WITH CUSTOMERS* ON REVENUE IN THE PUBLIC SECTOR

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Research Paper

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Summary of research undertaken

With the International Accounting Standards Board (IASB) having issued IFRS 15 *Revenue from Contracts with Customers,* entities reporting in terms of IFRS will in future be applying a significantly different approach to accounting for revenue. Given that Standards of GRAP (in particular GRAP 9 *Revenue from Exchange Transactions* and GRAP 11 *Construction Contracts*) were based on the older revenue recognition model under IAS 18 *Revenue*, the Board decided to undertake this research project to investigate the implications of possibly adopting the new IFRS 15 revenue recognition model, or aspects thereof, in Standards of GRAP.

This Research Paper covers the following:

- Identification of the prominent features of the revenue recognition model and scope of IFRS 15.
- Identification of the differences between the revenue recognition model in IFRS 15 and the revenue recognition models for revenue from exchange transactions provided in GRAP 9 and GRAP 11.
- Identification of the differences between the revenue recognition model of IFRS 15 and the revenue recognition model provided in GRAP 23 *Revenue from Non-Exchange Transactions*.
- Evaluation of the practical implications, within the public sector, of the differences identified from the comparison of the revenue recognition models.
- Identification of the disclosure differences when comparing the disclosure required by IFRS 15 with the disclosure requirements of existing Standards of GRAP.

This Research Paper provides a discussion of the differences identified and the practical implications of those differences with respect to accounting practice in the South African public sector. In considering the IFRS 15 model, the research identifies factors that:

- would increase complexity in accounting within the public sector;
- could enhance accounting practice in the public sector; and
- affect the feasibility of adopting a single revenue recognition model in the public sector.

A summary of these findings is included in Section 4 of the Research Paper.

This Research Paper provides the Board with an understanding of the benefits and challenges of adopting the new revenue recognition model in the context of Standards of GRAP.

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Research Paper

The impact of IFRS 15 *Revenue from Contracts with Customers* on revenue in the public sector

Introduction

The International Accounting Standards Board (IASB) issued IFRS 15 to replace IAS 18 and IAS 11, along with any related Interpretations. When considering the standards replaced by IFRS 15, it is clear that IFRS 15 provides a single revenue recognition model for revenue from exchange transactions. The revenue recognition model in IFRS 15 departs from the risks and rewards driven model (for the provision of goods) in IAS 18 in favour of a model that recognises revenue primarily based on the transfer of control of goods. The revenue recognition model in IFRS 15 contains a second element to cater for the rendering of services, including those services that result in the construction of an asset, which provides for the recognition of revenue to the extent that the performance obligation under the contract is satisfied.

The principles in GRAP 9 and GRAP 11 are drawn from IPSAS 9 *Revenue from Exchange Transactions* and IPSAS 11 *Construction Contracts*. The IPSASs are based on the equivalent IFRSs, IAS 18 and IAS 11. The Standards of GRAP employ the same revenue recognition model for revenue from exchange transactions as the previous IFRSs/IASs – i.e. transfer of risks and rewards in relation to the sale of goods and percentage of completion method for the rendering of services (including those services resulting in the construction of an asset).

As a result of the changes in revenue recognition under IFRSs, it is important to analyse what effect these changes could have on the public sector. The purpose of this Research Paper is therefore to evaluate the possible implications of IFRS 15 if it were to be adopted in the public sector. This Research Paper considers:

(a) The extent to which the principles in IFRS 15 differ from existing Standards of GRAP on revenue, i.e. GRAP 9 *Revenue from Exchange Transactions*, GRAP 11 *Construction Contracts* and GRAP 23 *Revenue from Non-exchange Transactions (Taxes and Transfers)*.

(b) Whether the principles in IFRS 15 are suitable for application in the South African public sector.

(c) The potential impact any differences in principle have on the accounting applied by entities to typical revenue transactions that occur in the public sector.

Discussions of the aforementioned considerations are outlined in this Research Paper into two sections: Section 1 - Revenue from exchange transactions and Section 2 - Revenue from non-exchange transactions. Sections 1 and 2 deal with matters affecting the recognition and measurement of revenue. Section 3 outlines the issues affecting the presentation and disclosure of information relating to both exchange and non-exchange revenue.

Section 4 of this Research Paper also evaluates the possible adoption or incorporation of the principles in IFRS 15 into Standards of GRAP by identifying aspects of IFRS 15 that may add complexity to the revenue recognition process, as well as those areas where the recognition of revenue in the public sector could benefit from the principles in IFRS 15. This section also explores whether it is appropriate to have a single Standard of GRAP for both exchange and non-exchange revenue.

Section 1 - Revenue from exchange transactions

1.1 This section compares the model used to recognise revenue in IFRS 15, to the principles used to recognise revenue from exchange transactions in Standards of GRAP. This comparison therefore focuses on GRAP 9 and GRAP 11.

1.2 The model for the recognition and measurement of revenue in IFRS 15 can be distilled into the following five steps:

1. Identify the contract(s) with a customer.
2. Identify the performance obligations.
3. Determine the transaction price.
4. Allocate the transaction price to the performance obligations in the contract.
5. Recognise revenue when (or as) the entity satisfies a performance obligation.

1.3 Steps 1, 2 and 5 relate primarily to the recognition of revenue and are therefore discussed under the section "Matters affecting recognition", while steps 3 and 4 are more closely related to the measurement of revenue and discussed under the section on "Matters affecting measurement".

Matters affecting recognition

1.4 In this sub-section the impact of the recognition principles of IFRS 15 on revenue from exchange transactions is considered. The revenue recognition model in IFRS 15 is used as the basis for the discussion and the main focus of the discussion is the impact of the differences between IFRS 15, GRAP 9 and GRAP 11. Significant similarities are acknowledged in the discussion where relevant.

Step 1: Identify contracts with customers

1.5 To determine the impact of this first step in the IFRS 15 revenue recognition model ("the model"), a clear understanding is required of what is meant by a contract and a customer. The discussion under this step is divided into two sections: Understanding the definition and attributes of contracts and understanding the definition and attributes of a customer in the context of how they relate to revenue recognition.

Understanding the definition and attributes of contracts

Contract

1.6 The definition of a contract, as detailed in Appendix A of IFRS 15, stipulates that it is "*an agreement between two or more parties that creates enforceable rights and obligations"*. GRAP 9 and GRAP 11 do not specifically define the term contract, although GRAP 11 uses the term interchangeably with the term "construction contract". GRAP 11.07 defines a construction contract as: *"a contract, or a similar binding arrangement, specifically negotiated for the construction of an asset or a* *combination of assets that are closely interrelated or interdependent in terms of their design, technology and function or their ultimate purpose or use"*. This definition provided in GRAP 11 focuses on a contract for the construction of an asset and therefore does not provide sufficient clarity about the crucial elements of a contract in general terms.

1.7 GRAP 104.16 on *Financial Instruments* however defines a contract as follows: "*an agreement between two or more parties that has clear economic consequences that the parties have little, if any, discretion to avoid, usually because the agreement is enforceable by law"*. GRAP 104.AG29 goes on to describe the key features of a contracts:

(a) "contracts involve willing parties entering into an arrangement;

(b) the terms of the contract create rights and obligations for the parties to the contract, and those rights and obligations need not result in equal performance by each party. For example, a donor funding arrangement creates an obligation for the donor to transfer resources to the recipient in terms of the agreement concluded, and establishes the right of the recipient to receive those resources. These types of arrangements may be contractual even though the recipient did not provide equal consideration in return, i.e. the arrangement does not result in equal performance by the parties; and

(c) performance and remedy for non-performance are enforceable by law."

1.8 When evaluating the definitions of a contract provided in IFRS 15 and GRAP 104, it is evident that the definitions largely provide for similar attributes. The definition provided in GRAP 104 is more explicit regarding the presence of the following in a contract:

- willing parties; and
- clear economic consequences.

1.9 Given the profit-oriented environment in which IFRS 15 is applied, it is considered that the omission of the aforementioned three elements (outlined in paragraph 1.7) from the definition is not indicative that the attributes are not required for a contract to exist. It is considered that the environment in which IFRS 15 is applied implicitly requires the existence of these elements in a contract.

1.10 Similar to IFRS 15, GRAP 11 specifically requires the existence of a contract (albeit a construction contract), but also allows for binding arrangements which confer rights and obligations on either party as if it were a contract (e.g. Ministerial orders) as a basis for the recognition of revenue. Although GRAP 9 does not explicitly require the existence of a contract for the recognition of revenue, it is considered that the nature of revenue recognition inherently requires the existence of enforceable rights to economic benefits between two or more parties. These enforceable rights may arise from contracts or legislation (or equivalent means). The requirement that enforceable rights exist to provide a basis for revenue recognition, is therefore similar between

IFRS 15, GRAP 11 and GRAP 9 as currently applied in the South African public sector.

Oral or implied agreements

1.11 IFRS 15.10 specifically includes *"oral or implied agreements"* in its scope. Although it has been implied in the Standards of GRAP that oral agreements should be recognised, neither GRAP 9 nor GRAP 11 specifically mention oral arrangements. GRAP 104.16 outlines that agreements that give rise to financial instruments need not be in writing. As GRAP 104 deals specifically with financial instruments rather than revenue arrangements, oral or implied revenue contracts may not have been recognised consistently in practice.

1.12 Clarification in the revenue recognition Standards that oral or implied agreements are considered in the same way as written contractual arrangements may ensure that such arrangements are consistently recognised in practice. The explicit inclusion of oral or implied agreements may however create an opportunity for the manipulation of revenue by entities as it would be difficult to support the revenue recognised.

Collectability of the transaction price

1.13 IFRS 15 incorporates an evaluation of the collectability of revenue as a key component of the initial recognition of revenue. In making this evaluation, IFRS 15.9(e) notes the following: "*in evaluating whether collectability of an amount of consideration is probable, an entity shall consider only the customer's ability and intention to pay that amount of consideration when it is due".*

1.14 Currently, Standards of GRAP includes IGRAP 1 *Applying The Probability Test on Initial Recognition of Revenue*, which specifically precludes the assessment of recoverability of revenue on initial recognition. Prior to IGRAP 1, practice in the South African public sector included an evaluation of the recoverability of revenue as an integral assessment of the recognition of revenue. The impact of this assessment was, however, often limited to adjusting revenue for the time value of money impact resulting from extended payment terms (GRAP 9.17).

1.15 The consensus in IGRAP 1 is that an assessment of recoverability affects subsequent measurement rather than initial recognition. As such, the requirement of IFRS 15 to assess recoverability on initial recognition results in a significant departure from current practice. Where the customer does not have either the ability or the intention to pay the transaction price, the requirements of IFRS 15 will result in the revenue not being recognised in full or possibly not being recognised at all. IFRS 15 indicates that if the entity sells goods or services with the expectation that the full amount of consideration would not be received, then it might be considered a price concession and would require revenue to be recognised at a lower amount. Examples of price concessions in the private sector include where a hospital is required by law to provide emergency healthcare to patients without medical aid, or where an entity engages in trade with entities in developing or emerging economies and there is uncertainty about whether the full transaction price will be recovered (Illustrative examples 2 and 3 in IFRS 15).

1.16 The evaluation required by IFRS 15 of recoverability on initial recognition gives rise to the following concerns in the public sector environment:

- IFRS 15 measures revenue at the transaction price (as agreed in the contract) adjusted for the estimated collectability of the transaction price. The receivable recognised for the revenue is however measured at fair value in accordance with IFRS 9. From the disclosure requirements in IFRS 15.108 it is evident that IFRS 15 foresees that there may be instances where the amount of revenue recognised may differ from the value of the receivable raised in accordance with IFRS 9. GRAP 9 requires revenue to be measured at the fair value of the consideration received or receivable, with no consideration of collectability as per the provisions of IGRAP 1. The resulting receivable recgonised, in accordance with GRAP 104, is also measured at fair value. The receivable is only impaired for subsequent incurred losses in accordance with GRAP 104. As a result, existing Standards of GRAP do not foresee circumstances where the amount of the receivable recognised would differ from the amount of the related revenue. As such, the measurement in IFRS 15, which adjusts revenue for collectability, contradicts the model applied in Standards of GRAP (IGRAP 1 read with GRAP 104 and GRAP 108 *Statutory Receivables*).Standards of GRAP require that any non-collectability of revenue is a subsequent measurement issue and does not affect the initial recognition and measurement of revenue.

- The inclusion of the statement that differences between the amount of revenue recognised and the receivable recognised, upon initial recognition, should be treated as an expense (IFRS15.108) has raised debate in practice as to why a difference would arise at initial recognition between these two amounts. However, a subsequent amendment to IFRS 9 has reduced the likelihood of differences between revenue and the related receivable at initial recognition. Paragraph 5.1.3 of IFRS 9 states: *"Despite the requirement in paragraph 5.1.1, at initial recognition, an entity shall measure trade receivables at their transaction price (as defined in IFRS 15) if the trade receivables do not contain a significant financing component in accordance with IFRS 15 (or when the entity applies the practical expedient in accordance with paragraph 63 of IFRS 15)."*

- In applying IFRS 15, the timing of the evaluation of collectability of revenue impacts the manner in which collectability of revenue is treated. Where collectability is identified at initial recognition of revenue it is treated as an implicit price concession in accordance with IFRS 15.52(b). Where collectability is identified as part of the subsequent measurement of the related receivable it is treated as an impairment loss in accordance with IFRS 9 *Financial Instruments.*

- The level of subjectivity applied in the recognition of revenue under IFRS 15, when compared to Standards of GRAP, is significantly increased, resulting in additional complexity.
- Questions arise about the maturity of the accounting environment in the South African public sector environment and the ability of practitioners to cope with the increased complexity of this requirement.
- This contradicts the relevant legislative requirements in the South African public sector that oblige entities to collect all revenue due to them or to the state. In addition, because many goods and services provided by public sector entities are required to be provided by law, entities cannot choose their customers. As a result, the process of assessing the collectability of the transaction price becomes an almost academic exercise.

1.17 The most likely point of departure between IFRS 15 and GRAP 9 is that entities in the private sector would have a choice as to who to transact with, which is often not the case in the public sector for the reasons outlined in the previous paragraph.

Contract modifications

1.18 Contract modifications have become more complex in IFRS 15 and require entities to apply more judgement. Contract modifications in IFRS 15 are changes in the scope or price of the contract, or both. Neither GRAP 9 nor GRAP 11 provides much guidance on the treatment of modifications to contracts in relation to the recognition of revenue.

1.19 Under IFRS 15 entities are required to determine whether a modification should be accounted for as a change to the existing contract (i.e. an adjustment to the delivery quantity, timing or transaction price) or a separate contract.

1.20 IFRS 15.20 provides that contract modifications, related to distinct goods or services, should be treated as separate contracts if both the following apply:

(a) *"the scope of the contract increases because of the addition of promised goods or services that are distinct (in accordance with paragraphs 26–30); and*

(b) *the price of the contract increases by an amount of consideration that reflects the entity's stand-alone selling prices of the additional promised goods or services and any appropriate adjustments to that price to reflect the circumstances of the particular contract. For example, an entity may adjust the stand-alone selling price of an additional good or service for a discount that the customer receives, because it is not necessary for the entity to incur the selling-related costs that it would incur when selling a similar good or service to a new customer."*

1.21 IFRS 15.21 provides the following alternative treatments for contract modifications where both the requirements of IFRS 15.20 are not present:

"An entity shall account for the promised goods or services not yet transferred at the date of the contract modification (ie the remaining promised goods or services) in whichever of the following ways is applicable:

(a) An entity shall account for the contract modification as if it were a termination of the existing contract and the creation of a new contract, if the remaining goods or services are distinct from the goods or services transferred on or before the date of the contract modification. The amount of consideration to be allocated to the remaining performance obligations (or to the remaining distinct goods or services in a single performance obligation identified in accordance with paragraph 22(b)) is the sum of:

(i) the consideration promised by the customer (including amounts already received from the customer) that was included in the estimate of the transaction price and that had not been recognised as revenue; and

(ii) the consideration promised as part of the contract modification.

(b) An entity shall account for the contract modification as if it were a part of the existing contract if the remaining goods or services are not distinct and, therefore, form part of a single performance obligation that is partially satisfied at the date of the contract modification. The effect that the contract modification has on the transaction price, and on the entity's measure of progress towards complete satisfaction of the performance obligation, is recognised as an adjustment to revenue (either as an increase in or a reduction of revenue) at the date of the contract modification (i.e. the adjustment to revenue is made on a cumulative catch-up basis).

(c) If the remaining goods or services are a combination of items (a) and (b), then the entity shall account for the effects of the modification on the unsatisfied (including partially unsatisfied) performance obligations in the modified contract in a manner that is consistent with the objectives of this paragraph."

1.22 Due to the lack of guidance in GRAP 9 and GRAP 11, coupled with the consideration that revenue contracts largely result in the recognition of financial assets (receivables), the provisions of GRAP 104.81 on contract modifications are followed in accounting for any changes. As a result, current practice dictates that contract modifications are only accounted for as new contracts (i.e. termination of the existing contract and replacing with a new contract) where such modifications result in a significant change to the original contract terms.

1.23 Under current practice a contract modification will not be accounted for as a new or separate contract where the contract modification is not significant. The treatment provided in GRAP 104.81 in relation to contract modifications, is largely independent of whether or not the goods or services underlying the contract are distinct. As such, the treatment in GRAP 104.81 will be applied uniformly irrespective of whether or not the goods or services are distinct.

1.24 When comparing the treatment provided in IFRS 15.20 – 21 for contract modifications in relation to distinct goods or services against the provisions of GRAP 104.81, it is evident that IFRS 15 does not consider the significance of contract modifications in the same manner as GRAP 104. As such, the treatment prescribed in paragraphs 20 and 21 of IFRS 15 should be followed irrespective of the significance of the contract modifications. It could therefore result in new contracts or terminations of contracts for potentially insignificant modifications. The contract modification principles in IFRS 15, if left unchanged, would result in tension with the requirements of GRAP 104.81.

1.25 Barring the potential tension with GRAP 104, the guidance provided by IFRS 15 is considered useful in accounting for contract modifications, to the extent that those modifications are related to distinct goods or services. It is considered that the application of this guidance could greatly enhance the consistency with which contract modifications are accounted for in the financial statements. Although the requirements of IFRS 15 could be considered to increase the administrative burden on entities, it is considered that the subjectivity of the assessment of significance in GRAP 104 could be eliminated. The benefit of the consistency in practice could therefore potentially outweigh the perceived administrative burden.

Understanding the definition and attributes of a customer

1.26 IFRS 15 only includes those contracts where the counterparty is regarded to be a "customer". Appendix A of IFRS 15 defines a customer as *"a party that has contracted with an entity to obtain goods or services that are an output of the entity's ordinary activities in exchange for consideration".* An example of when a counterparty might not be a customer, is if the counterparty contracts with the entity to participate in an activity or process in which the parties share in the risks and benefits that result from the activity or process (e.g. developing an asset in a collaboration arrangement), rather than obtaining the output of the entity's ordinary activities.

1.27 GRAP 9 and GRAP 11 do not include a similar requirement. The scope of GRAP 9 is concerned with those transactions that are exchange in nature, while GRAP 11 considers those transactions or arrangements where an entity acts as a contractor, and could be either exchange or non-exchange in nature.

1.28 GRAP 9.12 defines an exchange transaction as "*transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange*". This definition implies that there will be an identified beneficiary to any exchange transaction and that the value of the goods or services will approximate the value of the consideration received or receivable.

1.29 GRAP 11.10 states the following: *"An entity assesses the terms and conditions of each contract concluded with customers to establish whether the contract is a construction contract or not. In assessing whether the contract is a construction contract, an entity considers whether it is a contractor, as described in paragraph .15 of this Standard."* A contractor is an entity that performs construction work pursuant to a construction contract.

1.30 The focus on customers, and providing customers with goods and services in the ordinary course of business in IFRS 15, means that the scope is different when compared to GRAP 9 and GRAP 11. The scope of IFRS 15 indicates that revenue from a contract is accounted for using the S `tandard that is applicable to that contract. Therefore, interest income and dividends will not be recognised, measured or disclosed in terms of IFRS 15. Instead recognition, measurement and disclosure of interest income will be based on the contract that it is derived from (e.g. IAS 17 *Leases* will be applied for interest from lease contracts, IAS 39 *Financial Instruments: Recognition and Measurement* or IFRS 9 *Financial Instruments* will be applied for interest arising from financial instruments.) Income derived from dividends will also not be recognised, measured or disclosed in accordance with IFRS 15, but rather in accordance with IAS 39 or IFRS 9 as the case may be. When applying GRAP 9, interest income and dividends are recognised, measured and disclosed in accordance with GRAP 9.

1.31 Although royalties are specifically included in the scope of GRAP 9, the scope paragraphs of IFRS 15 are not explicit as to whether or not royalties are within the scope of IFRS 15. The absence of a specific scope inclusion may be misleading, particularly since IFRS 15 is intended to only apply to the rendering of goods and services in the ordinary course of business. This may suggest that royalties would be excluded, unless the entity's ordinary business activities are aimed at routinely generating royalties. IFRS 15.B63 provides specific guidance on how to account for royalties, while other standards are generally silent on the matter. When considering what other standards could be applied to royalties, it is noted that leases of intangible assets are excluded from the scope of IAS 17 and IAS 38, while IAS 39 and IFRS 9 do not contain guidance that could be directly applied to royalties. Based on these facts, royalties would, by default, be accounted for using IFRS 15.

Step 2: Identify performance obligations

Performance obligations as distinct goods and services

1.32 The identification of performance obligations for the transfer of goods or services to a customer is important because IFRS 15.31 states: *"An entity shall recognise revenue when (or as) the entity satisfies a performance obligation by transferring a promised good or service (i.e. an asset) to a customer."* It is clear that the identification of performance obligations in a contract is vital in the recognition of revenue, because revenue is recognised to the extent that performance obligations have been satisfied.

1.33 This step in the revenue recognition model requires that an entity identifies the performance obligations in the contract concluded with the customer. IFRS 15.22 requires the following:

At contract inception, an entity shall assess the goods or services promised in a contract with a customer and shall identify as a performance obligation each promise to transfer to the customer either:

(a) *a good or service (or a bundle of goods or services) that is distinct; or*

(b) *a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer (see paragraph 23).”*

1.34 IFRS 15.27 provides that goods and services are distinct when both the following criteria are met:

(a) *“the customer can benefit from the good or service either on its own or together with other resources that are readily available to the customer (i.e. the good or service is capable of being distinct); and*

(b) *the entity's promise to transfer the good or service to the customer is separately identifiable from other promises in the contract (i.e. the good or service is distinct within the context of the contract).”*

1.35 A customer can benefit from a good or a service in accordance with IFRS 15.27(a) if the good or the service can be used, consumed, sold for an amount greater than scrap value or otherwise held in a way that generates economic benefits.

1.36 Factors that indicate that an entity’s promise to transfer a good or a service to a customer is separately identifiable include (but are not limited to) the following:

(a) *“the entity does not provide a significant service of integrating the good or service with other goods or services promised in the contract into a bundle of goods or services that represent the combined output for which the customer has contracted. In other words, the entity is not using the good or service as an input to produce or deliver the combined output specified by the customer.*

(b) *the good or service does not significantly modify or customise another good or service promised in the contract.*

(c) *the good or service is not highly dependent on, or highly interrelated with, other goods or services promised in the contract. For example, the fact that a customer could decide to not purchase the good or service without significantly affecting the other promised goods or services in the contract might indicate that the good or service is not highly dependent on, or highly interrelated with, those other promised goods or services.”* (IFRS 15.29)

1.37 Whenever goods or services do not meet these criteria (as provided in IFRS 15.27 – 29) they are not considered distinct. IFRS 15.30 provides that where goods or services are not distinct that they must be grouped with other goods or services until it forms an identifiable bundle of goods and services. Distinct goods or services will be identified first with the remaining (not distinct) goods and services being bundled together until they form a distinct bundle of goods and services. Each performance obligation is ultimately linked to a distinct good or service or distinct bundle of goods and services.

1.38 In the process of identifying performance obligations, the identification of distinct goods and services would be considered appropriate for exchange transactions. This is because goods and services in exchange transactions are generally identifiable and of direct benefit to the customer and of proportionate value in relation to the consideration paid. It is however considered that not all goods and services in public sector arrangements are distinct and separable. Consider the following examples:

Example 1

Municipalities provide households and businesses with bins and/or containers in which to dispose of their waste, and the waste is then removed from these bins and/or containers at specified times. Each household or business must have a bin or container supplied by the municipality in order to have their waste removed. Although households and businesses receive a bin or container, the bin or container is for sole use by the municipality. The waste bin and the emptying of the waste bin provided are seen as an interrelated good and service.

Example 2

Entity X has been appointed to undertake the development (construction and related services) and distribution of low cost housing in a particular City. The cost of the houses to the beneficiaries depends on their level of income. Entity X is responsible for the obtaining the necessary approvals, arranging for the transfer of the land, design of the houses, and the construction and related services. Entity X often undertakes these services separately for other entities (customers).

Although the preparation and design services provided could be seen as distinct, because the fact that completed low cost houses have been promised as part of the arrangement means the goods and services are interrelated and therefore not distinct.

1.39 Through the application of IFRS 15.30 to the situations in Example 1 and 2 above, the goods and services would be bundled together to form a distinct bundle of goods and services, rather than being separated. This distinct bundle of goods of services would be treated as a single performance obligation.

1.40 Apart from the example noted above, there may be other scenarios in the public sector where it may be difficult to identify distinct goods and services, and consequently, the resulting performance obligations. Table 1 below outlines additional examples where clarification may be required under an IFRS 15 approach to the recognition of revenue:

Table 1

Revenue type	**Issues in identifying performance obligations**
Wastewater management services	These services include the sanitary removal and treatment of sewerage water. The exact customer entitlement is not explicit and therefore the exact supplier requirements are also unclear. As such, some elements of the service entitlement are not clear.
Professional licence fees	Members of professions, such as auditors who are registered with the Independent Regulatory Board for Auditors (IRBA), doctors that are registered with the Health Professionals Council of South Africa (HPCSA), and financial advisers registered with the Financial Services Board (FSB) are required to pay annual membership fees. These membership fees allow eligible members to undertake their various professions, but also allow members access to support services. It is not possible to distinguish which portion of the membership fees is attributable to the support services and which portion is attributable to the licence to undertake the specified profession.

1.41 GRAP 9 outlines separate revenue recognition requirements for services and goods. Revenue related to services is recognised when the outcome of the transaction can be estimated reliably. The outcome of the transaction can be estimated reliably when (a) the amount of revenue can be measured reliably, (b) when it is probable that the economic benefits or service potential associated with the transaction will flow to the entity, (c) the stage of completion of the transaction can be measured reliably, and (d) the costs incurred for the transaction and to complete it can be measured reliably (GRAP 9.20). Revenue from construction contracts is recognised using the same criteria (GRAP 11.35).

1.42 Revenue from the sale of goods in GRAP 9 is recognised when (a), (b) and (d) in paragraph 1.40 above are met, and when significant risks and rewards are transferred to the purchaser and the entity retains neither continuing managerial control nor effective control of the goods sold (GRAP 9.29).

1.43 To apply the requirements of GRAP 9 the goods or services provided under an arrangement must be known (i.e. identifiable). GRAP 9 states the following in relation to identifying goods and services:

- GRAP 9.08: *"The rendering of services typically involves the performance by the entity of an agreed task over an agreed period of time. The services may be* *rendered within a single period or over more than one period. Examples of services rendered by entities for which revenue is typically received in exchange may include the provision of housing, management of water facilities, management of toll roads, and management of transfer payments."*

- GRAP 9.09: *"Goods include goods produced by the entity for sale, such as publications, and goods purchased for resale, such as merchandise, land and other property held for resale."*

1.44 While GRAP 9 does require a distinction between goods and services, there is a sharper focus on the identification of distinct goods and services in IFRS 15. This is because of the change in approach in IFRS 15 to the recognition of revenue based on the satisfaction of performance obligations arising from the distinct goods and services provided in an arrangement.

Step 5: Recognise revenue as the performance obligation is met

1.45 This step of the revenue recognition model is concerned with the timing of revenue recognition. IFRS 15.31 provides: *"An entity shall recognise revenue when (or as) the entity satisfies a performance obligation by transferring a promised good or service (i.e. an asset) to a customer. An asset is transferred when (or as) the customer obtains control of that asset."* IFRS 15.33 notes that goods and services are assets, even if only momentarily, when they are received and used. Control of an asset refers to the ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset.

1.46 For the purpose of recognising revenue with reference to the satisfaction of performance obligations, IFRS 15 provides for differentiation between performance obligations settled at a point at time and performance obligations settled over a period of time.

Performance obligations settled over a period of time

1.47 IFRS 15 indicates that, unless the revenue contract stipulates otherwise, an entity recognises revenue over the period that it settles its performance obligation. This is similar to the recognition of revenue by reference to the stage of completion as required in GRAP 9 for revenue from the rendering of services and GRAP 11 for revenue from construction contracts. What is different, however, is that IFRS 15 specifically provides that if a contract does not create a legally enforceable right to payment for performance completed to date, the recognition of revenue is delayed until that right to payment vests. IFRS 15 indicates that the right to receive payment for performance completed to date need not be specified as a fixed amount in the contact. As such, the absence of an amount for the entitlement does not in itself indicate that there is no legally enforceable right to payment.

1.48 GRAP 9 and GRAP 11 do not have a similar requirement. They only deal with those situations where the outcome of the transaction cannot be reliably measured. In these instances, entities recognise revenue to the extent that costs have been incurred and are recoverable. As there is no requirement similar to IFRS 15 in GRAP 9 or GRAP 11, the provision in IFRS 15 may result in later recognition of revenue (based on stage of completion), which may be more appropriate in certain circumstances. In particular, it would prevent the recognition of revenue for work completed to date where an entity's right to payment only arises on the final settlement of a performance obligation.

1.49 IFRS 15.35 – 36 provides indicators of when an entity would consider that it is settling performance obligations over a period of time rather than at a specific point in time. This explicit guidance is not provided in GRAP 9 or GRAP 11. This guidance would aid the development of consistent revenue recognition practices in the South African public sector.

1.50 IFRS 15.35 provides the following: *"An entity transfers control of a good or service over time and, therefore, satisfies a performance obligation and recognises revenue over time, if one of the following criteria is met:*

(a) the customer simultaneously receives and consumes the benefits provided by the entity's performance as the entity performs (see paragraphs B3–B4);

(b) the entity's performance creates or enhances an asset (for example, work in progress) that the customer controls as the asset is created or enhanced (see paragraph B5); or

(c) the entity's performance does not create an asset with an alternative use to the entity (see paragraph 36) and the entity has an enforceable right to payment for performance completed to date."

1.51 IFRS 15.36 provides: *"An asset created by an entity's performance does not have an alternative use to an entity if the entity is either restricted contractually from readily directing the asset for another use during the creation or enhancement of that asset or limited practically from readily directing the asset in its completed state for another use. The assessment of whether an asset has an alternative use to the entity is made at contract inception. After contract inception, an entity shall not update the assessment of the alternative use of an asset unless the parties to the contract approve a contract modification that substantively changes the performance obligation."*

Performance obligations settled at a point in time

1.52 Where an entity satisfies a performance obligation at a specific point in time, revenue is recognised when the performance obligation is settled. IFRS 15.38 provides specific guidance as to when a performance obligation is considered to be settled at a point in time. The settlement of a performance obligation at a point in time is considered in relation to the transfer of control over the asset that is created in fulfilment of the performance obligation.

1.53 IFRS 15.38 provides the following: *"If a performance obligation is not satisfied over time in accordance with paragraphs 35–37, an entity satisfies the performance obligation at a point in time. To determine the point in time at which a customer obtains control of a promised asset and the entity satisfies a performance obligation, the entity shall consider the requirements for control in paragraphs 31–34. In addition, an entity shall consider indicators of the transfer of control, which include, but are not limited to, the following:*

(a) The entity has a present right to payment for the asset—if a customer is presently obliged to pay for an asset, then that may indicate that the customer has obtained the ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset in exchange.

(b) The customer has legal title to the asset—legal title may indicate which party to a contract has the ability to direct the use of, and obtain substantially all of the remaining benefits from, an asset or to restrict the access of other entities to those benefits. Therefore, the transfer of legal title of an asset may indicate that the customer has obtained control of the asset. If an entity retains legal title solely as protection against the customer's failure to pay, those rights of the entity would not preclude the customer from obtaining control of an asset.

(c) The entity has transferred physical possession of the asset—the customer's physical possession of an asset may indicate that the customer has the ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset or to restrict the access of other entities to those benefits. However, physical possession may not coincide with control of an asset. For example, in some repurchase agreements and in some consignment arrangements, a customer or consignee may have physical possession of an asset that the entity controls. Conversely, in some bill-and-hold arrangements, the entity may have physical possession of an asset that the customer controls.

(d) The customer has the significant risks and rewards of ownership of the asset—the transfer of the significant risks and rewards of ownership of an asset to the customer may indicate that the customer has obtained the ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset. However, when evaluating the risks and rewards of ownership of a promised asset, an entity shall exclude any risks that give rise to a separate performance obligation in addition to the performance obligation to transfer the asset. For example, an entity may have transferred control of an asset to a customer but not yet satisfied an additional performance obligation to provide maintenance services related to the transferred asset.

(e) The customer has accepted the asset—the customer's acceptance of an asset may indicate that it has obtained the ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset."

1.54 When reading IFRS 15.38, it is clear that the point at which control over the asset is transferred coincides with the point in time that a performance obligation can be considered to have been fulfilled. This establishes the control-based revenue recognition model employed by IFRS 15. Under GRAP 9 revenue from the sale of goods is only recognised when the risks and rewards related to an asset are transferred to the customer. The transfer of risk and rewards is considered in IFRS 15 to be a subset in evaluating the transfer of control over an asset. As such, it is considered that the control-based model of IFRS 15 might result in a later point of revenue recognition. It may also be argued that assessing control over goods transferred is likely to be less subjective than the judgements required in balancing the risks and rewards inherent in that asset.

1.55 The nature of transactions within the public sector may make it difficult to discern whether a performance obligation is settled over a period of time or at a point in time. Consider the following examples:

Table 2

Revenue type	Concerns
Licence fees	Licences issued in the public sector (e.g. fishing licences or motor vehicle licences) generally entitle the recipient thereof to undertake activities for a specific period of time. For these types of transactions, it is unclear whether the issuing of the license would be considered as settlement of a performance obligation at a point in time or over a period of time.
Bulk infrastructure levies [1]	The nature of these levies and the rights conveyed to customers are unclear. It uncertain how the performance obligations will be identified or whether the performance obligations are settled at a point in time or over a period of time.
Professional licence fees	Given the discussion earlier in Table 1 it is unclear which portion (if any) of the membership fees is related to a performance obligation settled at a point in time or settled over a period of time.

[1] Municipalities are legally entitled to levy a financial contribution for the provision of bulk engineering infrastructure services when approving development applications that require new roads, stormwater drainage, water, sewage, and electricity infrastructure. The bulk infrastructure levies are levied on developers as a means for private developers to contribute to the upgrading of bulk services required for developments proposed by the developers.

Recognition of a assets and liabilities resulting from contracts with customers

1.56 IFRS 15 requires an entity to identify its contracts with customers and the performance obligations associated with those contracts. The existence of these contracts and any rights and obligations associated with them do not result in the recognition of assets and liabilities in and of themselves. The sections that follow outline specific circumstances when contract assets and receivables, as well as liabilities, are recognised in relation to contracts with customers.

Recognising contract assets, receivables and contract liabilities

1.57 IFRS 15 is based on the notion that a contract asset or contract liability is generated when either party to a contract performs. IFRS 15.105 states: *"When either party to a contract has performed, an entity shall present the contract in the statement of financial position as a contract asset or a contract liability, depending on the relationship between the entity's performance and the customer's payment. An entity shall present any unconditional rights to consideration separately as a receivable."*

1.58 As most contracts within the scope of IFRS 15 are executory in nature, assets and liabilities will only be recognised to the extent that a party has performed in terms of the arrangement. These are called contract assets and contract liabilities in terms of IFRS 15. Paragraph BC317, read with BC322, explains that contract assets exist when an entity has satisfied a performance obligation but does not yet have an unconditional right to consideration (e.g., because the entity must satisfy another performance obligation in the contract before it is entitled to invoice the customer). IFRS 15 makes a further distinction between contract assets and receivables, based on the existence of unconditional rights to consideration.

1.59 An entity has an unconditional right to receive the consideration from the customer when there are no further performance obligations required to be satisfied before the entity has the right to collect the customer's consideration. Paragraph BC323 explains that such an unconditional right to receive the customer's consideration represents a receivable from the customer that is classified separately from contract assets. A right is unconditional if nothing other than the passage of time is required before payment of that consideration is due.

1.60 Neither GRAP 9 nor GRAP 11 contain a similar distinction between contract assets and receivables.

1.61 Further to paragraph 1.57 above, IFRS 15.16 states the following in relation to the recognition and measurement of specific liabilities: *"An entity shall recognise the consideration received from a customer as a liability until one of the events in paragraph 15 occurs or until the criteria in paragraph 9 are subsequently met (see paragraph 14). Depending on the facts and circumstances relating to the contract, the liability recognised represents the entity's obligation to either transfer goods or services in the future or refund the consideration received. In either case, the liability shall be measured at the amount of consideration received from the customer."*

1.62 The recognition of liabilities in accordance with these requirements results in the postponement of the revenue recognition until such time as:

(a) the entity has no remaining obligations to transfer goods or services to the customer and all, or substantially all, of the consideration promised by the customer has been received by the entity and is non-refundable; or

(b) the contract has been terminated and the consideration received from the customer is non-refundable.

1.63 IFRS 15 provides specific guidance on the measurement of refund obligations. The guidance on refund obligations in IFRS 15 does not only deal with advance receipts, but also deals with liabilities that might arise from warranty provisions etc. IFRS 15.55 states: *"An entity shall recognise a refund liability if the entity receives consideration from a customer and expects to refund some or all of that consideration to the customer. A refund liability is measured at the amount of consideration received (or receivable) for which the entity does not expect to be entitled (i.e. amounts not included in the transaction price). The refund liability (and corresponding change in the transaction price and, therefore, the contract liability) shall be updated at the end of each reporting period for changes in circumstances."*

1.64 GRAP 9 and GRAP 11 are silent on the accounting treatment to be applied where revenue is received in advance. As a result, the liability recognised in relation to revenue received in advance in accordance with Standards of GRAP reflects the remaining obligation under a contract. At initial recognition, that liability would equal the amount of revenue received in advance.

1.65 GRAP 9.32 states: *"Revenue in such cases is recognised at the time of sale provided the seller can reliably estimate future returns and recognises a liability for returns based on previous experience and other relevant factors."* The liability recognised for returns or refunds under GRAP is treated as a provision in terms of GRAP 19.

1.66 Although both IFRS 15 and GRAP 9 require the recognition of a liability for potential refund obligations, IFRS 15 is explicit that the liability recognised must be treated as a reduction in revenue. GRAP 9 does not provide explicit guidance whether a refund liability should be treated as a reduction in revenue.

Matters affecting measurement

1.67 IFRS 15.46 states: *"When (or as) a performance obligation is satisfied, an entity shall recognise as revenue the amount of the transaction price (which excludes estimates of variable consideration that are constrained in accordance with paragraphs 56–58) that is allocated to that performance obligation."* The requirement is similar to GRAP 9 and 11 as progress is measured at the end of each reporting period. IFRS 15 however provides additional guidance about the methods that can be used to determine this progress and provides for both output and input based methods.

1.68 IFRS 15.B15 states: *"Output methods recognise revenue on the basis of direct measurements of the value to the customer of the goods or services transferred to date relative to the remaining goods or services promised under the contract. Output methods include methods such as surveys of performance completed to date, appraisals of results achieved, milestones reached, time elapsed and units produced or units delivered."*

1.69 IFRS 15.B18 states: *"Input methods recognise revenue on the basis of the entity's efforts or inputs to the satisfaction of a performance obligation (for example, resources consumed, labour hours expended, costs incurred, time elapsed or machine hours used) relative to the total expected inputs to the satisfaction of that performance obligation. If the entity's efforts or inputs are expended evenly throughout the performance period, it may be appropriate for the entity to recognise revenue on a straight-line basis."*

Step 3: Determining the transaction price

1.70 Steps 3 and 4 of the revenue recognition model provided in IFRS 15 are largely concerned with the measurement of revenue and are discussed in this section.

1.71 IFRS 15.47 states: *"The transaction price is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties (for example, some sales taxes). The consideration promised in a contract with a customer may include fixed amounts, variable amounts, or both."*

Collectability of the transaction price

1.72 The measurement principle in IFRS 15 *"the amount of consideration to which an entity expects to be entitled"* indicates that entities are required to adjust revenue to take the collectability of the transaction price into consideration. The application of this requirement in the public sector has been discussed in paragraph 1.15 and 1.16.

Variable consideration

1.73 IFRS 15.50 states: *"If the consideration promised in a contract includes a variable amount, an entity shall estimate the amount of consideration to which the entity will be entitled in exchange for transferring the promised goods or services to a customer."* This requires an entity to estimate variable consideration in determining the amount of consideration to which the entity is entitled. The requirement to estimate variable consideration in the measurement of revenue is not unique to IFRS 15 as this requirement is already included in GRAP 9 and GRAP 11. IFRS 15 does however expand significantly on the guidance provided and also provides more detailed guidance on the amount of variable consideration that should be recognised.

1.74 IFRS 15.51 as read with IFRS 15.52 provides guidance to identify situations that would give rise to variable consideration in a contract. IFRS 15.51 states: *"An amount of consideration can vary because of discounts, rebates, refunds, credits, price* *concessions, incentives, performance bonuses, penalties or other similar items. The promised consideration can also vary if an entity's entitlement to the consideration is contingent on the occurrence or non-occurrence of a future event. For example, an amount of consideration would be variable if either a product was sold with a right of return or a fixed amount is promised as a performance bonus on achievement of a specified milestone."* IFRS 15.52 further states: *"The variability relating to the consideration promised by a customer may be explicitly stated in the contract. In addition to the terms of the contract, the promised consideration is variable if either of the following circumstances exists:*

(a) the customer has a valid expectation arising from an entity's customary business practices, published policies or specific statements that the entity will accept an amount of consideration that is less than the price stated in the contract. That is, it is expected that the entity will offer a price concession. Depending on the jurisdiction, industry or customer this offer may be referred to as a discount, rebate, refund or credit.

(b) other facts and circumstances indicate that the entity's intention, when entering into the contract with the customer, is to offer a price concession to the customer."

1.75 IFRS 15.53 provides the following two methods to estimate the amount of variable consideration under a contract:

(a) "The expected value—the expected value is the sum of probability-weighted amounts in a range of possible consideration amounts. An expected value may be an appropriate estimate of the amount of variable consideration if an entity has a large number of contracts with similar characteristics.

(b) The most likely amount—the most likely amount is the single most likely amount in a range of possible consideration amounts (i.e. the single most likely outcome of the contract). The most likely amount may be an appropriate estimate of the amount of variable consideration if the contract has only two possible outcomes (for example, an entity either achieves a performance bonus or does not)."

1.76 The method applied may vary on a contract-by-contract basis, depending on which method would best reflect the expected outcome of the contract. Both methods are subject to significant assumptions and judgements. It is however considered that the application of the "expected value method" would be similar to applying weighted average probability for provisions under GRAP 19 *Provisions, Contingent Liabilities and Contingent Assets*. Although the concept is introduced in revenue recognition for the first time, it is considered that entities would, in general, be familiar with the weighted average probability method.

1.77 From a practical point of view however, the recognition of provisions are often non-routine transactions in light of the fact that provisions are raised infrequently. Revenue transactions are however recognised frequently and are therefore considered to be routine transactions. When considering the frequency and volume of revenue transactions in the public sector the calculations and estimations required by either of the prescribed methods may become onerous to entities and may take a significant amount of time. Entities would need to determine the range of outcomes, the weight to be attached to each outcome and only then will they be able to determine the variable amount. The fact that this can be applied on a contract basis can also impact the comparability of revenue in the public sector as there would not necessarily be consistency between the methods applied by the different entities.

1.78 Variable consideration should only be included in the transaction amount if it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved (IFRS 15.56). Although the provisions in IFRS 15 are similar to the principles currently applied under GRAP 9 and GRAP 11, where entities only recognise revenue to the extent that the amount is probable, it appears that a greater degree of certainty is required under IFRS 15 for variable consideration to be recognised.

Significant finance components

1.79 IFRS 15.65 requires the separate recognition of significant finance components, which is in line with the current requirements of GRAP 9 and GRAP 11. However, IFRS 15 provides additional guidance for determining the financing component and how to measure it. IFRS 15 requires that the discount rate used to calculate the financing component should be the discount rate that would be reflected in a separate financing transaction between the entity and the customer, which is similar to the requirement in GRAP 9.17(a). GRAP 9.17(a) requires that the financing component embedded in a transaction should be determined by reference to the prevailing rate for a similar instrument of an issuer with a similar credit rating.

1.80 IFRS 15 however offers a practical expedient as an entity does not need to consider a financing component to the contract if the expectation of the entity at inception of the contract is that it will be settled in one year or less. Current practice, informed by GRAP 104.AG87, allows entities not to consider the financing element in a transaction where the credit period is consistent with terms used in the public sector either through established practice or legislation. In practice this has resulted in not discounting revenue transactions, for the purpose of initial recognition, where the credit period is 30 days or less. As such, current practice still results in the discounting of revenue transactions with longer credit periods. It is considered that the practical expedient offered in IFRS 15 would be useful to entities in the public sector.

Consideration payable to a customer

1.81 IFRS 15 provides for situations where a customer in a contract may also be a supplier to the “selling” entity. IFRS 15 states that where the goods or services procured from the customer are not distinct, the consideration paid for those goods or services are treated as a reduction of the transaction price – i.e. the purchase from the customer are netted off against revenue. IFRS 15 provides that where the goods or services procured from the customer are distinct, the purchase is accounted for as a normal supply contract (i.e. recognised as an expense or asset, as if the goods or services were procured from an independent party). IFRS 15 does however state that where distinct goods or services procured from a customer are acquired at a price that exceeds its fair value, the amount by which the fair value is exceeded is accounted for as a reduction in the transaction price of the revenue contract – i.e. netted off against revenue from the contract.

1.82 It should be noted that IFRS 15 does not reflect that the goods or services procured from the customer should be related to the revenue contract for it to result in a reduction in the transaction price – i.e. the goods or services procured from the customer need not be related to the revenue contract in order for the entity to reduce the transaction price of the revenue contract. Consider the following examples to clarify the application of IFRS 15.

Example 3

Entity A is contracted by Entity B to construct a building. Entity A procures the windows for the building from Entity B at a value of R100 per window. The fair value of the windows procured is R80. Application of IFRS 15 would result in R80 being expensed as part of the contract costs, whilst R20 (portion of the window price that exceeds the fair value) will be treated as a reduction of the transaction price for the construction of the building.

Example 4

Entity C is contracted by Entity D to provide water purification services at a contract price of R200 per annum. Entity C procures public finance management advice from Entity D at a transaction price of R100 per annum. The public finance management (PFM) advice is completely unrelated to the water purification services of Entity C and has a fair value of R80 per annum. Application of IFRS 15 would result in recognition of a PFM consultancy expense to the value of R80 and a reduction of the transaction price for water purification services by R20 per annum.

1.83 If GRAP 9 or GRAP 11 were applied to the transactions in Example 3 and 4, the revenue would not have been reduced in either of the instances, resulting in the recognition of revenue in excess of the fair value of the goods or services provided.

Incremental contract costs

1.84 IFRS 15.91 states that: *"An entity shall recognise as an asset the incremental costs of obtaining a contract with a customer if the entity expects to recover those costs."*

1.85 IFRS 15.95 states: *"If the costs incurred in fulfilling a contract with a customer are not within the scope of another Standard (for example, IAS 2 Inventories, IAS 16 Property, Plant and Equipment or IAS 38 Intangible Assets), an entity shall recognise an asset* *from the costs incurred to fulfil a contract only if those costs meet all of the following criteria:*

(a) *the costs relate directly to a contract or to an anticipated contract that the entity can specifically identify (for example, costs relating to services to be provided under renewal of an existing contract or costs of designing an asset to be transferred under a specific contract that has not yet been approved);*

(b) *the costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future; and*

(c) *the costs are expected to be recovered."*

1.86 Neither GRAP 9 nor GRAP 11 provides specific guidance on how to account for costs incurred to obtain or fulfil a contract. However, in the absence of specific guidance in GRAP 9, GRAP 11 or other Standards of GRAP, entities would apply GRAP 1 *Presentation of Financial Statements* in evaluating the costs incurred to determine if those costs should be capitalised or expensed. If the costs meet the definition of an asset in GRAP 1, entities would also recognise the costs as an asset.

Step 4: Allocating the transaction price to the performance obligation

1.87 IFRS 15.73 states: *"The objective when allocating the transaction price is for an entity to allocate the transaction price to each performance obligation (or distinct good or service) in an amount that depicts the amount of consideration to which the entity expects to be entitled in exchange for transferring the promised goods or services to the customer."*

1.88 The main principle to be applied in this section of IFRS 15 is that the transaction price should be allocated into various performance obligations based on the stand-alone selling price of all the goods and services contained in the contract. Application of this principle in practice may prove difficult in certain instances. Consider the following examples:

Table 3

Revenue type	Concerns
Motor vehicle licences	The licence obtained by the vehicle owner entitles him / her to operate the vehicle, also compensates the issuing entity for maintaining the register of vehicles in South Africa and compensates the issuing entity for ensuring that all vehicles that are being operated are road-worthy (to ensure the safety of road users). As such, for motor vehicle licence fees collected it is not possible to attribute stand-alone selling prices for the different goods and services covered by the licence fee.

Revenue type	Concerns
Professional licence fees	Based on the analysis of issues presented in Table 1, it may not be possible to identify the service elements and their stand-alone selling prices.

1.89 It is considered that the difficulty in distinguishing stand-alone selling prices for the abovementioned examples is compounded by the fact that, in many cases, there is an overlap of exchange and non-exchange components to these goods and services.

1.90 The allocation of discounts is similar between GRAP 9 and IFRS 15. However IFRS 15 provides additional guidance as to the allocation of discounts to the performance obligations, specifically where the discount does not relate to all the performance obligations. This provides more detailed guidance than the current Standards.

Summary of key differences between IFRS 15 and existing Standards of GRAP

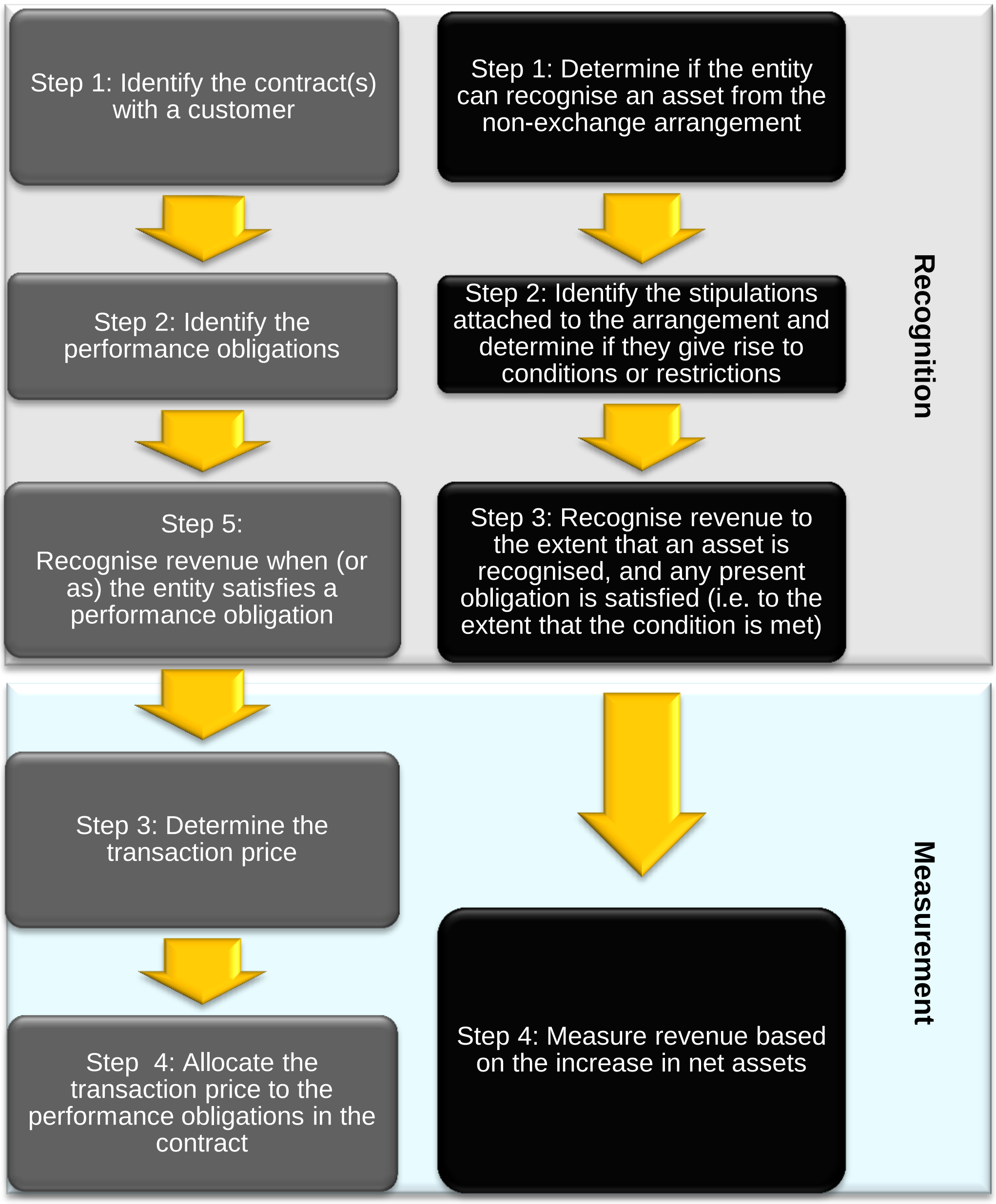
IFRS 15 only applies to inflows of economic benefits that result from contracts with customers, where the inflows are generated from goods and services supplied in the ordinary course of business. Therefore inflows such as interest and dividends are not within the scope of the Standard. Inflows such as interest and dividends are currently in the scope of GRAP 9. This is a clear difference in the scope of IFRS 15 and the existing Standards of GRAP.

- IFRS 15 requires an evaluation of the collectability of the contract price which informs the measurement of revenue at initial recognition. IGRAP 1 negates the need for such an evaluation under GRAP. In terms of IFRS 15, where the uncollectability of revenue is identified at initial recognition of the revenue, the uncollectable portion of revenue is treated as a reduction to revenue, because it represents an implicit price concession. When the uncollectability of revenue is identified as part of the subsequent measurement of the related receivable, the uncollectable portion of revenue is treated as an impairment loss. As this treatment is different to that outlined in IGRAP 1, this results in a substantial difference between IFRS 15 and Standards of GRAP.
- IFRS 15 provides for more instances under which a contract modification will result in recognising a new agreement than would be the case under existing standards of GRAP.
- IFRS 15 focuses more sharply on the identification of distinct goods and services than existing Standards of GRAP. This is because under IFRS 15, the recognition of revenue is based on the satisfaction of performance obligations arising from distinct goods and services, whereas revenue recognition under GRAP 9 is based on when and how risks are transferred, or as services are provided (in the case of services and construction contracts).

- IFRS 15 provides for a distinction between contract assets and receivables. An entity recognises a contract asset when it has satisfied its performance obligations under a contract, but is not yet legally entitled to the consideration from the customer for the performance obligations satisfied. An entity reclassifies a contract asset to a receivable when the entity is also legally entitled to the consideration from the customer. As such, IFRS 15 introduces contract assets as a separate class of assets.
- IFRS 15 provides two distinct models to determine the amount of variable consideration. Neither GRAP 9 nor GRAP 11 provide such explicit guidance with regard to the determination of the amount of variable consideration to be recognised.
- IFRS 15 requires a greater degree of certainty for the recognition of variable consideration than the existing standards of GRAP.
- IFRS 15 provides a practical expedient that negates the need to separate financing components for transactions that will be settled in one year or less. Existing standards of GRAP only negate the need to separate financing components where the credit period is consistent with terms used in the South African public sector (for example 30 days). As such, the practical expedient under IFRS 15 may provide more relief than the allowance under current standards of GRAP.
- IFRS 15 provides for more specific circumstances, not provided by existing standards of GRAP, where amounts payable to a customer should be offset against the revenue from that customer.
- IFRS 15 provides explicit guidance on accounting for incremental contract costs that is not provided in existing standards of GRAP.
- IFRS 15 requires an allocation of the transaction price to various performance obligations based on the stand-alone selling price of all goods and services included in the contract. Existing standards of GRAP do not require a similar treatment.
- IFRS 15 requires differentiation of performance obligations settled over a period of time and performance obligations settled at a point in time, which is not required by GRAP 9 or GRAP 11. GRAP 9 and GRAP 11 require a distinction based on whether the revenue arises from the delivery of goods or services.

Section 2 - Revenue from non-exchange transactions

2.1 This section compares the approach to revenue recognition in GRAP 23 to that in IFRS 15. In particular, it contrasts how non-exchange revenue would be recognised using the principles in IFRS 15 with the current practice in GRAP 23. The revenue recognition models in IFRS 15 and GRAP 23 are contrasted diagrammatically below (Note: The IFRS 15 approach is represented on the left, and the approach in GRAP 23 is represented on the right):



2.2 The revenue recognition model in GRAP 23 can be distilled into the following steps:

1. Determine if the entity can recognise an asset from a non-exchange transaction.
2. Identify the stipulations attached to the transaction or arrangement and determine if they give rise to conditions or restrictions.
3. Recognise revenue to the extent that an asset is recognised, and any present obligation is satisfied (i.e. to the extent that conditions are met).
4. Measure revenue at the amount of the increase in net assets recognised by the entity.

2.3 A precursory view of the approach to recognising revenue in IFRS 15 creates the impression that there is close alignment between the principles in IFRS 15 and GRAP 23. This raises the question of whether the new approach in IFRS 15 could lead to a single revenue recognition standard for both exchange and non-exchange transactions in the public sector. This in turn raises questions as to whether it would still be necessary to differentiate between revenue from exchange and revenue from non-exchange transactions at all. Given that a high degree of judgement is sometimes required to assess whether a transaction is exchange or non-exchange in nature, a single approach would alleviate considerable issues in practice.

Matters affecting recognition

2.4 Steps 1 to 3 relate primarily to the recognition of revenue and are therefore discussed under the "Matters affecting recognition" sub-section, whilst step 4 is related to the measurement of revenue. Step 4 is therefore discussed under the "Matters affecting measurement" sub-section.

2.5 In this sub-section, the impact of the IFRS 15 principles on the recognition of revenue from non-exchange transactions is considered. However, the revenue recognition model in GRAP 23 is used as the basis for the discussion and the main focus of the discussion is the differences between GRAP 23 and IFRS 15. Significant similarities are also considered, where relevant. Steps 1 to 3 of the revenue recognition model provided by GRAP 23 serve as the basis for discussion in this sub-section.

Step 1: Determine if the entity can recognise an asset from the non-exchange arrangement

2.6 Non-exchange transactions entail the transfer of resources, either for no consideration or for consideration that is considerably lower than prevailing market prices. The transaction or arrangement that governs the transfer of the resources, irrespective of whether it is statutory or contractual, gives one party to the transaction or arrangement a right to receive the resources.

2.7 GRAP 23.43 states: *"An inflow of resources from a non-exchange transaction recognised as an asset shall be recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow".* From this requirement it is evident that the starting point of the revenue recognition model under GRAP 23 is determining whether an arrangement conveys a right to receive resources that would meet the definition of an asset.

2.8 Once the existence of a right to a resource is confirmed, an entity is required to determine whether it controls such a resource and otherwise meets the definition of an asset. GRAP 23.27 states: *"An entity will recognise an asset arising from a non-exchange transaction when it gains control of resources that meet the definition of an asset and satisfy the recognition criteria."* From GRAP 23.27 it is evident that GRAP 23 employs a control model for the recognition of assets arising from arrangements. GRAP 23.30 defines control over an asset as follows: "*The ability to exclude or regulate the access of others to the benefits of an asset is an essential element of control that distinguishes an entity's assets from those public goods to which all entities have access and from which they benefit."* Once an entity confirms the existence of a right to an asset, and confirms that it has the ability to control such an asset, it will recognise an asset in accordance with GRAP 23 and either a liability or revenue as the counter entry (this is discussed in step 2).

2.9 IFRS 15 also employs a control model, but it relates to the recognition of revenue and not the recognition of assets in the arrangement. The control model in IFRS 15 provides for the recognition of revenue to the extent that an entity transfers control over the goods and services rendered to a customer under a contract. The control model in GRAP 23 is concerned with the receipt of control over resources, which may give rise to revenue The context in which control under IFRS 15 and GRAP 23 is considered is different, and also occurs at different points in the transaction or arrangement.

2.10 The existence of a right to an asset forms the starting point for revenue recognition under GRAP 23, whilst the existence of a contract is the starting point for revenue recognition under IFRS 15. A right to an asset in GRAP 23 could arise from a contractual arrangement, but will most likely arise from a statutory arrangement. As noted in paragraph 1.7, a key feature of a contractual arrangement is that the parties to the arrangement are willing and that there are clear rights and obligations imposed on the parties to the arrangement. A statutory arrangement is a transaction or other event that arises from legislation, regulation or similar means. These types of arrangements are often compulsory. Although these arrangements establish rights and obligations for each party to the arrangement, the rights and obligations are usually not equal, i.e. they are non-exchange transactions.

2.11 As noted in paragraph 1.58, most of the contracts that are within the scope of IFRS 15 give equal rights and obligations to either party, and as such, they are executory contracts. This means that neither party recognises an asset or a liability until the parties have performed.. Because of the nature of the contracts encountered in the public sector, the principles in IFRS 15 are intended for exchange rather than non-exchange arrangements.

2.12 As a result of the focus in IFRS 15 on executory contracts, the initial impression created in applying the principles in IFRS 15 to non-exchange transactions may be that an entity would only be entitled to recognise revenue (or a related asset or liability) once a party has performed. Although there may be specific circumstances in IFRS 15 that give rise to the recognition of assets and liabilities in certain instances (usually where another party has already performed, e.g. for advance receipts or refund liabilities), the principles in IFRS 15 do not deal with the typical public sector scenarios where an entity does not have any performance obligations but has a right to consideration (resources) before the other party has performed.

2.13 There are however aspects of the approach in IFRS 15 that could be applied to the recognition of revenue from non-exchange arrangements. It is however necessary to consider the recognition criteria of IFRS 15 in isolation of contractual customer relationship and executory contract parameters (as deliberated in Section 1). The recognition criteria, when viewed in isolation of the contractual customer relationship and executory contract parameters, can be summarised as follows:

- the entity has satisfied its performance obligation under the arrangement;
- the entity has an enforceable right to the consideration from the arrangement; and
- it is probable that the economic benefits from the arrangement will flow to the entity.

It is only through the tailoring of these recognition principles that IFRS 15 could be applied to a non-exchange arrangement. Applying these concepts may result in closer alignment of the accounting outcomes under IFRS 15 and GRAP 23.

2.14 Example 5 below illustrates this concept.

Example 5 – Recognition of receivables (timing similar)

Municipality A receivables equitable share allocations in terms of the Division of Revenue Act (DoRA). The DoRA is gazetted in March of each year, and outlines the equitable share allocations due to each municipality at the start of their financial year, which is 1 July. Municipality A obtains a legally enforceable right to the equitable share allocated to the municipality through the DoRA at 1 July each year and the right to receive this equitable share is not contingent on the Municipality A performing in any way.

In terms of GRAP 23, the promulgation of DoRA, the municipality’s right to receive the funds gives rise to an asset in the form of a receivable at 1 July. Municipality A recognises an asset (a receivable) on 1 July for the full amount of the equitable share allocated for the financial year.

If only the recognition criteria of IFRS 15 are applied to this non-exchange arrangement, the timing of the revenue recognition would be evaluated as follows:

- Performance obligations satisfied: The arrangement does not give rise to performance obligations for the municipality and it would therefore be assessed that the municipality has no performance obligations to satisfy and that revenue could be recognised.

- Enforceable right to the consideration from the arrangement: As of 1 July Municipality A has a legally enforceable right to the equitable share from the DoRA.

- Probable flow of economic benefits: It is probable that the relevant treasury will fulfil its mandated duty to pay the equitable share. (For the sake of simplicity, it is assumed that payment of the equitable share is not dependent on prior, current or future actions or behaviour of the municipality).

As such, on 1 July Municipality A satisfies the recognition criteria under IFRS 15 and will be entitled to recognise the full amount of the equitable share as revenue and the related receivable.

Step 2: Identify the stipulations attached to the arrangement and determine if they give rise to conditions or restrictions

2.15 GRAP 23.43 envisages that, along with the recognition of an asset arising from an arrangement, an entity considers whether it should recognise a liability or revenue in relation to the asset recognised. The recognition of the liability or revenue is dependent on the nature of the stipulations embedded in the arrangement and the extent to which any conditions have already been fulfilled.

2.16 Once an entity has confirmed that it should recognise an asset from a non-exchange transaction, it is required to identify the stipulations attached to the arrangement. GRAP 23.12 states: *“Assets may be transferred with the expectation and/or understanding that they will be used in a particular way and, therefore, that the recipient entity will act or perform in a particular way.”* The expectations of how the asset will be used are outlined in the stipulations to the transaction or arrangement. The stipulations are usually set out in the contract, legislation, regulation or equivalent governing the transaction or arrangement. Stipulations are therefore the performance obligations imposed on the recipient of revenue from non-exchange transactions

2.17 GRAP 23.13 clarifies that two categories of stipulations exist, i.e. restrictions and conditions. GRAP 23.13 states: “*While conditions and restrictions may require an entity to use or consume the future economic benefits or service potential embodied in an asset for a particular purpose (performance obligation) on initial recognition, only conditions require that future economic benefits or service potential be returned to the transferor in the event that the stipulation is breached (return obligation)”.* Restrictions are those performance obligations that do not result in return obligations, whilst conditions do result in a return obligation if the performance obligations are not satisfied. Liabilities are only recognised where a return obligation exists, and as a result, liabilities are only recognised for conditions. Where a liability is recognised as a result of conditions, revenue will only be recognised to the extent that the performance obligations are satisfied. Where a transaction is subject to restrictions the recognition of revenue will however not be postponed until the performance obligations are satisfied.

2.18 IFRS 15 does not categorise performance obligations into stipulations, conditions and restrictions. When contrasted with IFRS 15 it is noted that the sole existence of performance obligations does not give rise to the recognition of a liability. Performance obligations may give rise to the recognition of a liability when resources are received in advance of goods and services being provided. The identification of performance obligations using IFRS 15 would therefore not automatically trigger the recognition of related liabilities in the statement of financial position. Instead, the identification and existence of performance obligations is used as a basis for recognising revenue. In terms of IFRS 15, revenue is recognised to the extent that performance obligations are satisfied irrespective of whether or not those performance obligations give rise to a return obligation. This difference in the recognition of liabilities is however due to the different nature of the contracts that are within the scope of IFRS 15, i.e. they are executory in nature, while those transactions and arrangements that are within the scope of GRAP 23 are non-exchange and often statutory in nature.

2.19 Although both IFRS 15 and GRAP 23 require the identification of performance obligations arising from an arrangement, the impact of the performance obligations on the timing of revenue recognition differs under the two standards. This is addressed in step 3 that follows.

Step 3: Recognise revenue to the extent that a present obligation is satisfied

2.20 GRAP 23.44 states: *"As an entity satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it shall reduce the carrying amount of the liability recognised and recognise an amount of revenue equal to that reduction."* Further to this GRAP 23.45 provides guidance on the specific circumstances that would result in a performance obligation being satisfied: *"If it [the entity] has recognised a liability in respect of the inflow of resources arising from the non-exchange transaction, when the liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, it recognises revenue."*

2.21 The liability recognised under GRAP 23 mirrors the performance obligation imposed by the conditions of the arrangement. It therefore follows that the liability recognised under GRAP 23 can only be settled by either returning the asset or resources received in the non-exchange transaction, or by satisfying the other conditions attached. Therefore, as an entity satisfies conditions attached to an arrangement, it reduces the liability and recognises a corresponding amount of revenue.

2.22 IFRS 15 requires the recognition of revenue when an entity satisfies the performance obligations in a contract by transferring goods and services to the customer. IFRS 15 requires differentiation between performance obligations satisfied at a point in time and performance obligations satisfied over a period of time. This differentiation further informs the timing of revenue recognition. Although IFRS 15 requires differentiation between performance obligations being settled at a point in time or over time, the fundamental concept underlying the fulfilment of these obligations is that the entity relinquishes control of an asset to a customer.

2.23 GRAP 23 does not explicitly require a similar differentiation. Likewise, there is no single concept underlying how the performance obligations are fulfilled. Instead GRAP 23 requires the application of judgement to determine when a performance obligation is satisfied. In practice conditions are generally either satisfied either:

- at a point in time by specific events occurring, e.g. a taxable event or offence occurring such as taxes and fines, or
- over a period of time by the entity consuming its resources through the (i) use of the assets received in the transaction in a particular way which could be through the use of physical assets, through payment of suppliers if the resources received are required to be spent in a certain way, or (ii) through a return of the assets to the transferring entity. The nature of the transaction and the associated conditions therefore inform the judgement applied in determining the timing of the recognition of revenue under GRAP 23.

2.24 When contrasting GRAP 23 and IFRS 15 it is also noted that IFRS 15.37 specifically provides that if the revenue contract or legislation does not create a legally enforceable right to payment for performance completed to date, that the recognition of revenue is delayed until that right to payment vests. As such, where an entity satisfies a performance obligation over a period of time, but the right to revenue only vests once the performance obligation is fully settled the entity would only be able to recognise revenue at the point where the performance obligation is fully satisfied when applying IFRS 15. Clear consideration of a legally enforceable right to payment for performance completed or conditions satisfied to date is not explicit under GRAP 23. An exception may be where resources are transferred to an entity to reimburse it for expenses incurred.

2.25 Fundamentally, because the way in which performance obligations are fulfilled in IFRS 15 and GRAP 23, there are likely to be significant differences in when revenue is recognised under either Standard.

2.26 Consider Examples 6 and 7 that illustrate the impact that performance obligations have on the timing of revenue recognition under GRAP 23 and IFRS 15:

Example 6

Entity ABC enters into a grant agreement with Entity DEF on 1 April 20x1. In accordance with this arrangement Entity DEF is awarded R 5 million subject to the following stipulations:

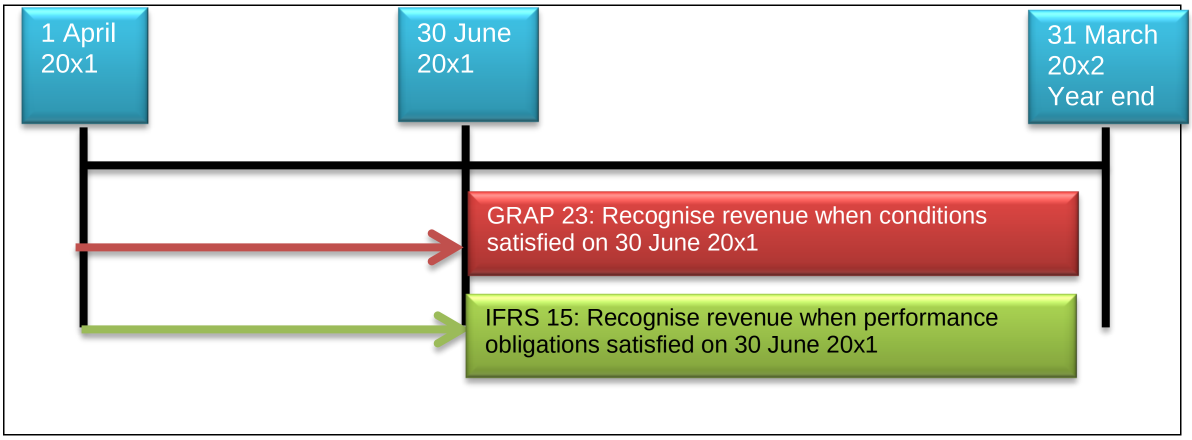
-The entity must use the funding to acquire 5 ambulances.

-The ambulances acquired must meet the minimum requirements of health regulations for deployment as ambulances.

-The ambulances must be acquired through a competitive bidding process.

-Should the funding not be used to acquire 5 ambulances or the ambulances do not meet the minimum specified criteria the funding must be returned to Entity ABC. Furthermore, should any portion of the funding not be used, the unused portion of the funding must be returned to Entity ABC.

On 10 April 20x1 the R 5 million is transferred to the bank account of Entity DEF. On 30 April 20x1 Entity DEF commences with a competitive bidding process for the acquisition of the ambulances. On 30 June 20x1 Entity DEF acquires 5 ambulances, to the value of R 5 million that meet the minimum requirement imposed by health regulations for ambulances. Consider the timeline diagrams below to illustrate the timing of recognition of the revenue under GRAP 23 and IFRS 15:



2.27 In Example 6, revenue will be recognised on the same date irrespective of whether the principles of IFRS 15 or GRAP 23 are applied, because the recognition of the revenue is driven by the acquisition of the ambulances. The performance obligation is the same under both Standards. Note: The timing of the recognition of an asset or receivable may differ under GRAP 23 and IFRS 15 based on the earlier discussion in Step 1 above.

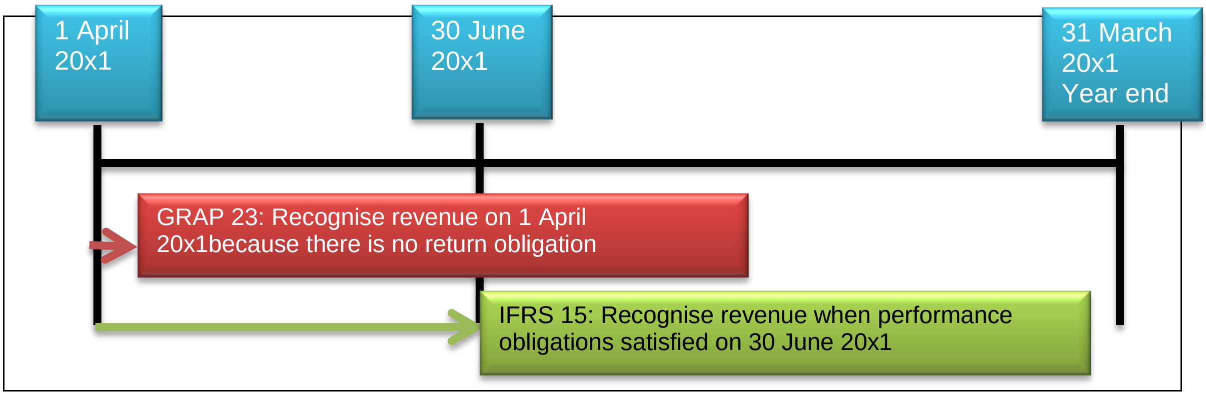
Example 7

Entity ABC enters into a grant agreement with Entity DEF on 1 April 20x1. In accordance with this arrangement Entity DEF is awarded R 5 million subject to the following stipulations:

- The entity must use the funding to acquire 5 ambulances.
- The ambulances acquired must meet the minimum requirements of health regulations for deployment as ambulances.

- The ambulances must be acquired through a competitive bidding process.
- There is no explicit or implicit return obligation, and the entity must simply report on its usage of the funds without any further consequences.

On 10 April 20x1 the R 5 million is transferred to the bank account of Entity DEF. On 30 April 20x1 Entity DEF commences with a competitive bidding process for the acquisition of the ambulances. On 30 June 20x1 Entity DEF acquires 5 ambulances, to the value of R 5 million that meet the minimum requirement imposed by health regulations for ambulances. Consider the timeline diagrams below to illustrate the timing of recognition of the revenue under GRAP 23 and IFRS 15:



2.28 In Example 7, there is a clear and significant difference in the timing of revenue recognition when the two Standards are contrasted. GRAP 23 requires an earlier recognition point due to the lack of a return obligation while under IFRS 15 the performance obligation would only be satisfied once the ambulances are purchased. In this example, it is assumed that for contracts within the scope of IFRS 15 there will always be an implicit possibility of recourse for the counter-party for non-performance given the contractual nature of the contracts and that they are executory in nature. As noted in Step 1 above, earlier recognition of a receivable and corresponding revenue may be possible if certain concepts/parameters in IFRS 15 are not applied.

2.29 The recognition of revenue may also be delayed under IFRS 15 when compared to GRAP 23, because under IFRS 15, an entity can only recognise revenue for performance to date when it has an enforceable right to payment. Consider example 8 below.

Example 8

Entity A awards Entity B with a grant to the value of R 10 million towards the upgrading of roads in Entity B's jurisdiction in accordance with a 3 year infrastructure improvement plan submitted by Entity B. Entity A stipulates that the funding may only be used for the improvement of Road X that stretches over 100km. Entity A further stipulates that where the funding is not used for the upgrading of the specific road the funding must be returned to Entity A. The agreement provides that the grant will be paid out in tranches to reimburse Entity B for qualifying costs incurred and claimed in the upgrading of Road X (i.e. the grant is paid on the basis of reimbursing costs incurred).

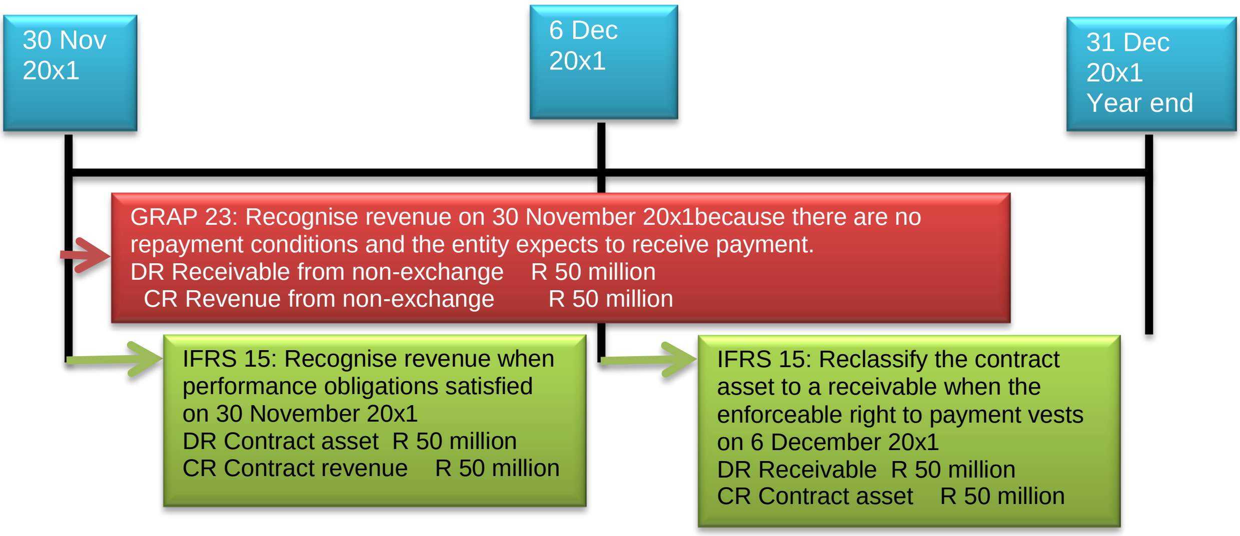
2.30 Under GRAP 23 the condition would be evaluated as being satisfied with every kilometre of Road X that was improved. Every kilometre of Road X as improved serves as a reduction in the return obligation, because the costs incurred for the improvement of every kilometre of Road X would constitute qualifying costs, for the purpose of the arrangement with Entity A, which would not have to be repaid to Entity A. Under IFRS 15 an entity would have to determine whether the performance obligation (i.e. improvement of Road X) is satisfied at a point in time or over a period of time. However, unlike GRAP 23 IFRS 15 specifically provides that, if a contract does not create a legally enforceable right to payment for performance completed to date, the recognition of revenue is delayed until that right to payment vests. As such, if IFRS 15 were applied to the same scenario provided the recognition of revenue may be delayed until the full 100km of Road X was upgraded because the agreement with Entity A does not explicitly include a right to payment for performance completed to date.

2.31 Example 9 below contrasts the recognition of revenue and assets (receivables) in GRAP 23 and IFRS 15:

Example 9

Entity A is awarded a grant of R 50 million on 3 January 20x1 for the construction of a building (the building plans and specifications were submitted and approved as part of the application for the grant). The grant stipulates that only those costs incurred to construct the building to the exact agreed specifications will be covered by the grant. Any costs incurred in relation to specifications not agreed upon will not be covered (i.e. if a building is constructed that materially differs from the agreed specification no grant payment will be made). The grant agreement stipulates the Entity A is required to carry the cost of construction and that the grantor will remit payment (of the R 50 million) once the engineer (as appointed by the grantor) has submitted the certificate confirming that the building is safe for occupation. Construction commences on 30 January 20x1. On 30 November 20x1 the structure (including all finishes) is completed to the exact specifications agreed upon. On 5 December 20x1 the engineer certifies that the building is safe for occupation. On 6 December 20x1 the engineer submits the certificate confirming that the building is safe for occupation and the grantor confirms receipt of the certificate. On 10 December 20x1 the grantor makes payment of the full grant amount.

The grant contains one stipulation: A building must be constructed to the exact specifications agreed upon. Certification by the engineer is considered a protective rather than a substantive right for the purpose of this example.



2.32 In example 9 the timing of revenue recognition coincides between GRAP 23 and IFRS 15, due to the nature of the condition attached to the grant agreement. However, as a result of the protective right included in the agreement the timing of the recognition of the receivable differs between GRAP 23 and IFRS 15. As noted in paragraphs 1.56 to 1.59 an entity may recognise the revenue from a contract when it has satisfied the performance obligations in that contract, however an entity may only recognise a receivable when it has an unconditional right to the consideration from the agreement. As such, IFRS 15 permits an entity to recognise revenue and a contract asset (which is separate from a receivable) when an entity has satisfied its performance obligations under a contract but does not yet have an unconditional right to the consideration from the agreement. Once the unconditional right is subsequently established (in this case, by the engineer's certificate), the entity must derecognise the contract asset and recognise the receivable. In contrast, GRAP 23 does not make this distinction and one would simply apply the definition and recognition criteria for an asset in determining when recognition of the receivable is appropriate.

Matters affecting measurement

Step 4: Measure revenue at the fair value of the consideration received or receivable

2.33 Similar to the recognition of revenue, the measurement thereof under GRAP 23 is also determined by the asset that flows from the arrangement. GRAP 23.40 states: *"An asset acquired through a non-exchange transaction shall initially be measured at its fair value as at the date of acquisition."* GRAP 23.48 states: "*When, as a result of a non-exchange transaction, an entity recognises an asset, it also recognises revenue equivalent to the amount of the asset measured in accordance with paragraph .40, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured in accordance with the requirements of paragraph .56, and the amount of the increase in net assets, if any, recognised as revenue. When a* *liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability will be recognised as revenue*". In practice, entities are likely to encounter one of the following scenarios at the point of recognising the asset arising from an non-exchange arrangement:

- The asset arising from the arrangement is not subject to any conditions; or
- The asset is subject to conditions and the value of the resultant performance obligation is less than the value of the asset arising from the arrangement; or
- The asset is subject to conditions and the value of the resultant performance obligation is equal to the value of the asset arising from the arrangement.

2.34 In those instances where the asset arising from the arrangement is not subject to any conditions the amount of the revenue recognised would be equal to the fair value of the asset recognised.

2.35 In those circumstances where the asset arising from the arrangement is subject to conditions a liability will be recognised equal to the amount required to settle the performance obligation. Where the amount required to settle the performance obligation is less than the value of the asset received, an entity will at the point of recognising the asset and the liability also recognise revenue at an amount equal to the difference between the value of the asset and the value of the liability at initial recognition. In subsequent periods, revenue will be recognised as the performance obligations are satisfied and the liability is reduced. The amount of the revenue recognised in these instances is equal to the portion of the liability that is reduced as this amount represents the increase in net assets.

2.36 Where an asset is recognised from a non-exchange arrangement that is subject to conditions and the value of the performance obligation is equal to the value of the asset recognised, a liability will be recognised at an amount equal to the value of the asset. Under these circumstances no revenue is recognised along with the initial recognition of the asset and liability from the non-exchange arrangement. Revenue will only be recognised as part of the subsequent measurement of the liability as described in paragraph 2.30 above.

2.37 Under IFRS 15 revenue is measured at the transaction price, allocated to each performance obligation, adjusted for the consideration of collectability. However, unlike the requirement of GRAP 23, performance obligations under IFRS 15 are not recognised as liabilities. As such, the amount of revenue recognised under IFRS 15 is not influenced by the measurement of a liability raised as the case would be under GRAP 23. Therefore, when the measurement practice of IFRS 15 is contrasted with the measurement requirements of GRAP 23 (as clarified in paragraphs 2.28 to 2.31 above) it is evident that the amount of revenue recognised under GRAP 23 would not be the same as the amount of revenue recognised using IFRS 15.

2.38 Under IFRS 15 the amount of revenue initially recognised will be the transaction price, reduced to take into consideration the estimated loss that may arise from the customer's potential inability or unwillingness to pay. Under GRAP 23 the amount of revenue is generally not adjusted for potential losses arising from doubtful collectability, due to the application of IGRAP 1. This adds to the difference in the amount of revenue that would be recognised when applying IFRS 15 or GRAP 23 to an arrangement.

2.39 IFRS 15.47 states: *"The transaction price is the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties (for example, some sales taxes).*" IFRS 15.49 states: *"For the purpose of determining the transaction price, an entity shall assume that the goods or services will be transferred to the customer as promised in accordance with the existing contract and that the contract will not be cancelled, renewed or modified."* IFRS 15.47 and IFRS 15.49 indicate that revenue is equal to the amount of consideration that the entity expects to be entitled to under the contract and that cancellations and modification to the contract should not be considered. When contract modifications are excluded from determining the amount of revenue it is considered that the basis of measurement would still be rooted in the fair value of the consideration receivable.

2.40 As explained in 1.73 – 1.74 above, IFRS 15 requires that significant finance components of a transaction should be recognised separately. IFRS 15.64 clarifies that, to determine the financing component, an entity discounts future cash flows from the contract using a rate that is representative of the credit characteristics of the party receiving financing through the contract. This rate must also take into consideration any collateral or security provided.

2.41 GRAP 23 does not specifically address the matter of separating financing components. However, GRAP 23.41 stipulates that monetary assets arising from a non-exchange arrangement (where the arrangement is a contractual arrangement and meets the definition of a financial instrument) must be measured at initial recognition, in accordance with the requirements of GRAP 104. GRAP 104.AG81 as read with GRAP 104.82 provides for scenarios where an entity would be required to separate the financing component of an instrument. Through the reference to the measurement requirements of GRAP 104 for the initial measurement of monetary assets arising from non-exchange transactions it is evident that scenarios may exist where a financing component must be separated for a non-exchange transaction. GRAP 104.84 provides that in discounting the cash flows from the arrangement (to separate the financing component) an entity may use the prime lending rate or government bond rate, adjusted for counterparty credit risks as a practical expedient. IFRS 15 does not provide a starting basis for the discount rate to be used in a manner similar to the practical expedients offered by GRAP 104. As a result the separating financing components using the guidance in IFRS 15 differ from the separation achieved using the guidance in GRAP 104. .

2.42 The requirement in GRAP 23 should be read in the context of the requirements of GRAP 108 which applies to arrangements that are not contractual arrangements (e.g. receivables that arise from legislation, i.e. statutory receivables) are measured. GRAP 108 *Statutory Receivables*, although not yet effective, has been issued to address the accounting for statutory receivables. GRAP 108.AG9 states: *"Statutory receivables are measured initially at their transaction amount, using the prescripts of legislation, regulations or an equivalent."* Using this guidance in GRAP 108 it appears that financing components would not need to be separated for statutory receivables.

2.43 Taking into consideration the potential differences in the discount rate applied under IFRS 15 and GRAP 23 the separation of financing components may differ between IFRS 15 and GRAP 23.

Summary of key differences between GRAP 23 and IFRS 15

- IFRS 15 does not include government grants in its scope and is therefore not aimed at addressing non-exchange transactions.
- IFRS 15 includes construction contracts within its scope, although these arrangements are likely to be undertaken in exchange transactions. Although construction contracts can be undertaken in non-exchange transactions, GRAP 23 does not deal with these non-exchange transactions. These arrangements are specifically within the scope of GRAP 11. While the same differences and similarities between IFRS 15 and GRAP 23 are likely to exist for construction contracts and other transactions, GRAP 11 provides guidance explicit guidance on the recognition of expenses, revenue, assets and liabilities related to non-exchange construction contracts. This guidance is absent in IFRS 15 and GRAP 23.
- The context in which control under IFRS 15 and GRAP 23 is considered is different, and also occurs at different points in the transaction or arrangement.
- The existence of a right to an asset forms the starting point for revenue recognition under GRAP 23, whilst the existence of a contract is the starting point for revenue recognition under IFRS 15.
- Contracts within the scope of IFRS 15 are mostly executory contracts, whereas arrangements within the scope of GRAP 23 may entitle one party to recognise an asset before either party to the arrangement has performed. IFRS 15 provides no explicit guidance on how to account for transactions where an entity acquires a right to consideration without being subjected to any performance obligations. A similar outcome could be achieved in certain instances between GRAP 23 and IFRS 15 if certain concepts/parameters of IFRS 15 are ignored.
- IFRS 15 specifies that revenue and or related assets can only be recognised for work performed to date where it has an enforceable right to receive consideration. The

circumstances in which this may arise in non-exchange transactions may be limited given the nature of these arrangements.

- As noted in section 1, the nature of any assets recognised is clearly distinguished between contract assets and receivables in IFRS 15, while GRAP 23 does not make such a distinction.
- Performance obligations are recognised as liabilities under GRAP 23 to the extent that they give rise to a return obligation. Under IFRS 15, performance obligations do not give rise to the recognition of liabilities unless amounts are received in advance from the customer.
- The manner in which performance obligations could be settled under IFRS 15 and GRAP 23 differ, which is likely to result in differences when revenue is recognised under the two standards
- GRAP 23 does not require the adjustment of revenue, on initial recognition, for collectability.
- Guidance provided for the separating of finance components under GRAP 23 differs from the guidance in IFRS 15, which could result in different discount rates being used.

Section 3 – Presentation and disclosure of information on revenue

A detailed comparison of the disclosure requirements in IFRS 15 to the Standards of GRAP has been undertaken and is included as Annexure A. The summary below outlines those areas where IFRS 15 requires additional disclosures that are not required by existing standards of GRAP:

- IFRS 15 requires the disclosure of revenue recognised in the reporting period that was included in the contract liability balance at the beginning of the period. This disclosure is not explicitly required by existing Standards of GRAP.
- IFRS 15 requires disclosure of revenue recognised in the reporting period from performance obligations satisfied (or partially satisfied) in previous periods.
- IFRS 15 requires an entity to explain how the timing of satisfaction of its performance obligations relates to the typical timing of payment and the effect that those factors have on the contract asset and the contract liability balances.
- IFRS 15 requires disclosure of qualitative and quantitative information about significant changes in the balances of contract assets and contract liabilities.
- IFRS 15 requires the disclosure of disaggregated information on revenue from contracts with customers. This disaggregation should provide information about the nature, timing and risk of the revenue arising from these contracts.
- IFRS 15 requires an entity to disclose sufficient information to enable users of financial statements to understand the relationship between the disclosure of disaggregated revenue and revenue information that is disclosed for each reportable segment.
- IFRS 15 requires an entity to disclose specific information about its remaining performance obligations and the allocation of the transaction price thereto.
- IFRS 15 requires an entity to explain the judgements, and changes in the judgements, used in determining (a) the timing of satisfaction of performance obligations and (b) the transaction price and the amounts allocated to performance obligations.
- IFRS 15 requires an entity to disclose information about the methods, inputs and assumptions used for (a) determining the transaction price, which includes, but is not limited to, estimating variable consideration, adjusting the consideration for the effects of the time value of money and measuring non-cash consideration; (b) assessing whether an estimate of variable consideration is constrained; (c) allocating the transaction price, including estimating stand-alone selling prices of promised goods or services and allocating discounts and variable consideration to a specific part of the contract (if applicable); and (d) measuring obligations for returns, refunds and other similar obligations.
- IFRS 15 requires an entity to describe (a) the judgements made in determining the amount of the costs incurred to obtain or fulfil a contract with a customer; and (b) the method it uses to determine the amortisation for each reporting period.

- IFRS 15 requires the disclosure of (a) the closing balances of assets recognised from the costs incurred to obtain or fulfil a contract with a customer, by main category of asset (for example, costs to obtain contracts with customers, pre-contract costs and setup costs); and (b) the amount of amortisation and any impairment losses recognised in the reporting period.
- IFRS 15 requires disclosure when an entity takes advantage of the practical expedients allowed when determining the financing component of contracts.

Section 4 – Conclusions

4.1 This section of the Research Paper outlines the impact that adoption of the principles in IFRS 15 would have on accounting in the public sector under the following headings:

- IFRS 15 principles that would increase complexity in accounting for revenue
- IFRS 15 principles that could improve on current accounting practice
- Matters affecting the feasibility of a single revenue recognition model
- Conclusion

IFRS 15 principles that would increase complexity in accounting for revenue

4.2 The discussion in the preceding sections of this Research Paper highlighted a number of significant differences between the principles in IFRS 15 and current practice (in GRAP 9, GRAP 11 and GRAP 23). It is considered that the following new principles introduced by IFRS 15 would result in increased complexity in accounting for revenue in the public sector:

4.2.1 IFRS 15 requires a detailed analysis of the collectability of revenue as part of determining the amount of revenue recognised. This analysis is required on a contract by contract basis. When considering the large volume of customers of public sector entities, it is envisaged that such an analysis would be onerous to the point of becoming impractical. It is unlikely that this assessment process could ever be fully automated and catered for by an entity's accounting system, although this is likely to be as much of a challenge in the private sector as it is for public sector entities.

4.2.2 The provisions in IFRS 15 that relate to contract modifications are more onerous. The lack of consideration for significance in accounting for contract modifications could increase the complexity and frequency of accounting for contract modifications.

4.2.3 IFRS 15 requires allocation of the transaction price of a contract to different performance obligations based on stand-alone selling prices. However, within the public sector, goods and services do not always have stand-alone selling prices due to the integrated nature of the goods and services provided. Application of this requirement would be impractical for some transactions.

4.2.4 IFRS 15 requires differentiation of performance obligations settled over a period of time and performance obligations settled at a point in time. However, the nature of certain transactions within the public sector may make it difficult to discern whether a performance obligation is settled over a period of time or at a point at time. For certain transactions, this may be an issue under the existing Standards of GRAP.

4.2.5 IFRS 15 differentiates between the recognition of contract assets and receivables on the basis of whether an entity has a unconditional right to receive the consideration from a contract. The standard further prescribes that contract assets are separate from receivables. It is considered that the recognition of the contract assets, with a subsequent reclassification thereof to receivables, introduces an additional layer of complexity that makes application of the standard more onerous.

IFRS 15 principles that could improve on current accounting practice

4.3 The discussion in the preceding sections of the Research Paper identified principles introduced by IFRS 15 that could enhance current accounting practice. The following features in IFRS 15 could improve consistency in the recognition and measurement of revenue when compared to current practice:

4.3.1 IFRS 15 provides more explicit guidance on the allocation of discounts. It is considered that this guidance could improve consistency in practice, although discounts may be granted infrequently in practice.

4.3.2 IFRS 15 provides explicit guidance regarding the treatment of refund liabilities. This guidance is more prominent than the guidance offered in GRAP 9 and GRAP 11. The lack of guidance in GRAP 9 and GRAP 11 regarding refund liabilities could cause inconsistencies in practice that could be avoided by the application of IFRS 15.

4.3.3 IFRS 15 provides a standardised approach to contract modifications that could improve the consistency with which contract modifications are accounted for in the public sector (although with the additional complexity that might arise).

4.3.4 IFRS 15 provides standardised treatment for costs incurred to fulfil contracts where those costs do not fall within the scope of another standard. No guidance is currently provided in GRAP 9 or GRAP 11 in this regard, which requires application of judgement and interpretation of other Standards of GRAP and the definition of an asset provided in GRAP 1 in determining whether such costs should be capitalised or expensed. The provisions in IFRS 15 are clearer in this regard and would therefore reduce judgement in practice.

Matters affecting the feasibility of a single revenue recognition model

4.4 It has been found in practice that the judgement required to differentiate between revenue from exchange transactions and revenue from non-exchange transaction significantly increases the complexity in accounting for revenue. For certain types of transactions (e.g. licence and other fees levied in terms of legislation) divergent views regarding their classification as revenue from exchange or revenue from non-exchange continues to exist. The level of judgement required in differentiating between revenue from exchange and revenue from non-exchange transactions and the inconsistency that may arise from divergent views increases the subjectivity of the amounts presented in the financial statements. A single revenue recognition model could negate the necessity to differentiate between revenue from exchange transactions and revenue from non-exchange transactions.

4.5 Removing the need to differentiate between revenue from exchange and revenue from non-exchange transactions may reduce the subjectivity of the amounts presented for revenue in the financial statements and improve consistency in classification, recognition and presentation of revenue.

4.6 The following matters require consideration and further investigation to determine the feasibility of adopting a single revenue recognition model in the public sector:

4.6.1 The revenue recognition model in IFRS 15 hinges on the existence of a contract with a customer. In the public sector the majority of non-exchange revenue flows from legislation rather than contracts. The model as provided would therefore not cater for a significant portion of revenue in the public sector, and it would need to be amended accordingly. Developing a single model that adequately caters for both exchange and non-exchange transactions would require extensive research and may be costly and time consuming.

4.6.2 The majority of contracts that are within the scope of IFRS 15 are executory in nature. IFRS 15 does not consider the existence of the right to an asset that qualifies for recognition prior to any of the parties to an arrangement having performed, unless advance payments are contractually agreed between parties. For the model in IFRS 15 to accommodate revenue from non-exchange transactions it will require amendment to facilitate the recognition of revenue where no party to the arrangement has yet performed, and where legislation or equivalent is the driver rather than a contract.

4.6.3 The model in IFRS 15 requires the identification of a customer. The nature of transactions in the public sector often precludes the identification of a specific customer. The goods and services rendered by public sector entities are determined by their legislative mandate to a wide range of people/entities. These goods and services are also often provided collectively rather than individually. For example, municipalities have to provide basic services to people within their jurisdiction, which includes provision of parks and sanitation of public areas. The customers of these services and the portion of the service provided to individual customers cannot always be identified.

4.6.4 IFRS 15 delays the recognition of revenue to the extent that performance obligations are satisfied. Under GRAP 23 the recognition of revenue is only delayed to the extent that performance obligations that also represent a return obligation (conditions) are satisfied.

4.6.5 IFRS 15 employs a control model for the recognition of revenue and recognises revenue to the extent that control over goods and services are transferred to a customer. GRAP 23 also employs a control model for the recognition of revenue;

however the control model applied allows for the recognition of revenue to the extent that the reporting entity obtains control over an asset. The timing and context within which the control models of IFRS 15 and GRAP 23 are applied are therefore significantly different.

4.6.6 IFRS 15 requires adjustment of the amount of revenue recognised from contracts with customers for significant finance components built into transactions. This practice is also required for initial measurement of assets arising from non-exchange transactions under existing standards of GRAP as evident from the reference to GRAP 104 and GRAP 108 for the measurement of assets arising from non-exchange transactions in GRAP 23.

Conclusion

4.7 Application of the IFRS 15 revenue recognition model in the public sector solely for revenue from exchange transactions may be feasible, subject to possible amendments highlighted in this Research Paper. It is considered that the model provided in IFRS 15 will result in improved reporting of revenue from exchange transactions within the public sector. However, given the current level of maturity of accounting practice in the public sector it is considered that the model should be simplified to remove the complexities highlighted in paragraph 4.2 above. Furthermore, it is considered that the model provided in IFRS 15 should be supplemented with sufficient application guidance to facilitate appropriate application in the public sector.

4.8 Given the concerns highlighted in paragraphs 4.4 to 4.6 above, it is considered that the model provided by IFRS 15, in its current form, would not be appropriate for application to revenue from non-exchange transactions. The principles in IFRS 15 do not adequately accommodate accounting for revenue from non-exchange transactions and may require extensive adjustment to address the characteristics of revenue from non-exchange transactions.

4.9 Consequently, the decision of whether or not to pursue a single, combined revenue model for both exchange and non-exchange transactions, using IFRS 15 principles as the basis, will depend entirely on a comprehensive analysis of the costs and benefits associated with this, both for the Board and for the South African Public Sector as a whole. At face value, a single revenue recognition model that is compatible with IFRS may appear to be desirable; however, such a model would need to be extensively tested and reworked to ensure that it is robust enough to cater for the wide variety of transactions and circumstances prevalent in the Public Sector, and in the end is unlikely to bear much of a resemblance to the IFRS 15 model in its current form.

Annexure A: Comparison of disclosures – IFRS 15 and relevant Standards of GRAP

IFRS 15	GRAP 9	GRAP 11	GRAP 23	Difference
Presentation				
15.105. When either party to a contract has performed, an entity shall present the contract in the statement of financial position as a contract asset or a contract liability, depending on the relationship between the entity's performance and the customer's payment.	No equivalent disclosure required.	The Standard requires entities to disclose the gross amount due from customers for contract work as an asset, it also requires entities to disclose the gross amount due to customers for contract work as a liability. (This would exclude progress billings exceeding costs incurred, thus liabilities)	GRAP 23.111 requires the entity to disclose either on the face of, or in the notes to, the financial statements: (b) the amount of receivables recognised in respect of non-exchange revenue; (c) the amount of liabilities recognised for refunds arising from non-exchange revenue. (d) the amount of liabilities recognised in respect of the off-market portion of concessionary loans that are subject to conditions; (e) the amount of liabilities recognised in respect of	GRAP 11 & 23 have similar disclosure requirements. GRAP 9 does not contain similar disclosure requirements. GRAP 1.76 requires that receivables from exchange transactions and receivables from non-exchange transactions be disclosed separately. GRAP 104 provides for the disclosure of financial assets and liabilities that will arise from contracts with customers. GRAP 108.32 requires an entity to disclose information that enables users of its financial statements to evaluate the significance of statutory receivables on its financial position and performance.

IFRS 15	GRAP 9	GRAP 11	GRAP 23	Difference
			transferred assets subject to conditions; (g) the existence and amounts of any advance receipts or unallocated receipts in respect of non-exchange transactions; and (h) the amount of any liabilities forgiven.	GRAP 108.35 states: The carrying amount of statutory receivables shall be disclosed separately in the notes to the financial statements, clearly distinguishing statutory receivables from receivables which are financial assets and other receivables. As such, the current GRAP framework includes disclosure equal to that required by IFRS 15.
15.105. An entity shall present any unconditional rights to consideration separately as a receivable.	No equivalent disclosure required.	No equivalent disclosure required.	No equivalent disclosure required.	GRAP 9, 11 & 23 does not have a similar disclosure requirement. GRAP 104 provides for the disclosure of financial assets arising from an unconditional right to receive payment, provided that such an unconditional right arises from a contract. GRAP 108 *Statutory Receivables* requires the disclosure of an unconditional right to payment arising from

IFRS 15	GRAP 9	GRAP 11	GRAP 23	Difference
				legislation. As such, the current Standards of GRAP include disclosure equal to that required by IFRS 15.
15.106. If a customer pays consideration, or an entity has a right to an amount of consideration that is unconditional (i.e. a receivable), before the entity transfers a good or service to the customer, the entity shall present the contract as a contract liability when the payment is made or the payment is due (whichever is earlier).	No equivalent disclosure required.	GRAP 11.55 (b) requires the entities to disclose the amount of advances received for each contract. GRAP 11.57 requires entities to disclose the gross amount due to customers for contract work as a liability. (This would exclude progress billings exceeding costs incurred, thus liabilities)	GRAP 23.111 requires the entities to disclose either on the face of, or in the notes to, the financial statements: (g) the existence and amounts of any advance receipts or unallocated receipts in respect of non-exchange transactions	GRAP 9 has no equivalent disclosure. GRAP 11 & 23 has a similar disclosure requirement. Under GRAP 1 revenue received in advance will be disclosed as a liability. GRAP 104 *Financial Instruments* requires entities to recognise a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument. As such, the current Standards of GRAP includes disclosure equal to that required by GRAP 15.
15.107. If an entity performs by transferring goods or services to a customer before the customer pays	No equivalent disclosure required.	The standard requires entities to disclose the gross amount due from customers for contract	No equivalent disclosure required. GRAP 23.111(b) does require the recognition	There is a similar disclosure requirement in GRAP 11, but no such requirement in the other

IFRS 15	GRAP 9	GRAP 11	GRAP 23	Difference
consideration or before payment is due, the entity shall present the contract as a contract asset, excluding any amounts presented as a receivable.		work as an asset. (This would exclude progress billings, thus amounts recognised as receivables)	of a receivable for non-exchange, but this will not necessarily be as a result performance which requires payment.	standards. GRAP 104 requires that an entity recognise a financial asset when it has an unconditional right to receive cash. Where this is the case, the requirements in the existing Standards of GRAP are similar to those in IFRS 15.
15.107. An entity shall assess a contract asset for impairment in accordance with IFRS 9. An impairment of a contract asset shall be measured, presented and disclosed on the same basis as a financial asset that is within the scope of IFRS 9 (see also paragraph 113(b)).	No equivalent disclosure required.	No equivalent disclosure required.	No equivalent disclosure required.	GRAP 9, 11 & 23 does not require any specific disclosure related to the contract asset impairment. GRAP 104 & 108 requires disclosure of impairments of financial assets & statutory receivables respectively. This disclosure made is similar to that required by IFRS 15.
15.108. An entity shall account for a receivable in accordance with IFRS 9. Upon initial recognition of a receivable from a contract with a customer, any difference between the measurement of the receivable in accordance with IFRS 9 and the	When an uncertainty arises about the collectability of an amount already included in revenue, the uncollectible amount, or the amount in respect of which recovery has ceased to be probable, is	When an uncertainty arises about the collectability of an amount already included in contract revenue, and already recognised in surplus or deficit, the uncollectable amount or the amount in respect of which	No equivalent disclosure required.	GRAP 9 & 11 requires similar disclosure as an expense. There is no corresponding disclosure requirement in GRAP 23. GRAP 104 does not provide for similar disclosure. Existing

IFRS 15	GRAP 9	GRAP 11	GRAP 23	Difference
corresponding amount of revenue recognised shall be presented as an expense (for example, as an impairment loss).	recognised as an expense, rather than as an adjustment of the amount of revenue originally recognised.	recovery has ceased to be probable is recognised as an expense rather than as an adjustment of the amount of contract revenue.		standards of GRAP do not reflect consideration of the disclosure of day one losses as a result of different measurement techniques applied between the measurement of revenue and the initial measurement of a receivable. However, GRAP 104 requires the disclosure of impairment losses arising from subsequent measurement. GRAP 108.10 requires an entity initially measure statutory receivables at their transaction amount. GRAP 108.34 contains a number of disclosure requirements. This is not entirely the same as the requirements in IFRS 15 and IFRS 9.
15.109 The Standard uses the terms ‘contract asset’ and ‘contract liability’ but does not prohibit an entity from using alternative descriptions in the statement of financial position for those items. If an entity uses an alternative	No equivalent disclosure required	No equivalent disclosure required	No equivalent disclosure required	This paragraph explains that the standard does not prescribe the specific asset/liability name. This is not specifically mentioned in GRAP 9, 11 and 23.

IFRS 15	GRAP 9	GRAP 11	GRAP 23	Difference
description for a contract asset, the entity shall provide sufficient information for a user of the financial statements to distinguish between receivables and contract assets.				
Disclosure				
15.110. The objective of the disclosure requirements is for an entity to disclose sufficient information to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. To achieve that objective, an entity shall disclose qualitative and quantitative information about all of the following: (a) its contracts with customers (see paragraphs 113–122); (b) the significant judgements, and changes in the judgements, made in applying this Standard to those	GRAP 9.39 (a) requires and entity to disclose the accounting policies adopted for the recognition of revenue including the methods adopted to determine the stage of completion of transactions involving the rendering of services.	GRAP 11.54 requires entities to disclose: (a) the amount of contract revenue recognised as revenue in the period; (b) the methods used to determine the contract revenue recognised in the period; and (c) the methods used to determine the stage of completion of contracts in progress. GRAP 11.57 requires entities to present: (a) the gross amount due from	GRAP 23.114requires that the disclosures per GRAP 23 should provide information that is useful for decision making and demonstrates accountability of the entity for the resources entrusted to it. GRAP 23.112 requires the entity to disclose in the notes to the financial statements: (a) the accounting policies adopted for the recognition of revenue from non-exchange transactions; (b) for major classes of	GRAP 9.39 (a) requires similar disclosure to IFRS 15.110 (b). GRAP 11 requires similar disclosure by requiring the disclosure of an asset from contracts and methods used to determine certain values, and GRAP 23 contains disclosure requirements reaching a similar objective. GRAP 1 also requires the disclosure of significant judgements in relation to transactions and balances. GRAP 108 also requires the disclosure of qualitative information about the recognition of monetary assets arising from

IFRS 15	GRAP 9	GRAP 11	GRAP 23	Difference
contracts (see paragraphs 123–126); and (c) any assets recognised from the costs to obtain or fulfil a contract with a customer in accordance with paragraph 91 or 95 (see paragraphs 127–128).		customers for contract work as an asset; GRAP 11.58 explains that the gross amount due from customers for contract work is the net amount of: (a) costs incurred plus recognised surpluses; less (b) the sum of recognised deficits and progress billings for all contracts in progress for which costs incurred plus recognised surpluses to be recovered by way of contract revenue (less recognised deficits) exceeds progress billings.	revenue from non-exchange transactions, the basis on which the fair value of inflowing resources was measured; (c) for major classes of taxation revenue which the entity cannot measure reliably during the period in which the taxable event occurs, information about the nature of the tax; and (d) the nature and type of major classes of bequests, gifts, donations showing separately major classes of goods in-kind	legislation.
15.111. An entity shall consider the level of detail necessary to satisfy the disclosure objective and how much emphasis to place on each of the various requirements. An entity shall aggregate or disaggregate disclosures so that useful information is not obscured by	No equivalent disclosure required.	No equivalent disclosure required.	GRAP 23.114 states that the disclosures required by the Standard assist the entity to satisfy the objectives of financial reporting which are to provide information useful for decision making and to	This is not specifically mentioned in GRAP 9, 11 & 23, however general disclosure requirements are included in GRAP 1 and the Framework.

IFRS 15	GRAP 9	GRAP 11	GRAP 23	Difference
either the inclusion of a large amount of insignificant detail or the aggregation of items that have substantially different characteristics.			demonstrate the accountability of the entity for the resources entrusted to it.	
15.112 An entity need not disclose information in accordance with this Standard if it has provided the information in accordance with another Standard.	No equivalent disclosure required.	No equivalent disclosure required.	No equivalent disclosure required.	This paragraph explains that the same information does not need to be disclosed twice. GRAP 9, 11 and 23 does not make the same statement.
15.113. An entity shall disclose all of the following amounts for the reporting period unless those amounts are presented separately in the statement of comprehensive income in accordance with other Standards: (a) revenue recognised from contracts with customers, which the entity shall disclose separately from its other sources of revenue; and (b) any impairment losses	Revenue must be disclosed separately for each major source of revenue.	The amount of contract revenue must be disclosed	GRAP 23.111(a) requires disclosure of revenue from non-exchange transaction by major class, showing separately taxes and transfers.	Disclosure of contract revenue separately from other sources of revenue introduces a further layer of disaggregation not provided for under GRAP 9 & 23. However, the requirement is similar to GRAP 11. Separate disclosure of impairment losses on receivables from contracts with customers is not required by either GRAP 9, 11 or 23. GRAP 104.115(e) requires an

IFRS 15	GRAP 9	GRAP 11	GRAP 23	Difference
recognised (in accordance with IFRS 9) on any receivables or contract assets arising from an entity's contracts with customers, which the entity shall disclose separately from impairment losses from other contracts.				entity to disclose the amount of any impairment loss for each class of financial asset. Furthermore, GRAP 108.36 - 38 requires disclosure of impairment losses of monetary assets arising from legislation.
15.114. An entity shall disaggregate revenue recognised from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. An entity shall apply the guidance in paragraphs B87–B89 when selecting the categories to use to disaggregate revenue.	Revenue must be disclosed separately for each major category of revenue.	Disaggregation of contract revenue into revenue per major category is not required.	GRAP 23.111(a) requires the disclosure of disaggregated revenue from non-exchange transaction by major class, showing separately taxes and transfers and the major classes thereof.	The requirement to disclose revenue per main category may be similar to what is required by GRAP 9 & 23. It is however unclear whether the major classes/categories of revenue as envisaged in GRAP 9 and GRAP 23 reflect the nature, timing and uncertainty of the cash flows as envisaged in IFRS 15. However, this disaggregation is not required by GRAP 11, which views revenue from construction contracts as a single major category of revenue.
15.115. In addition, an entity shall disclose sufficient information to enable users of financial	Revenue must be disclosed separately for each major category of revenue.	Disaggregation of contract revenue into revenue per major category is not required.	GRAP 23.111(a) requires the disclosure of disaggregated revenue from	GRAP 18 *Segment Reporting* requires the disaggregation of revenue per operating segment

IFRS 15	GRAP 9	GRAP 11	GRAP 23	Difference
statements to understand the relationship between the disclosure of disaggregated revenue (in accordance with paragraph 114) and revenue information that is disclosed for each reportable segment, if the entity applies IFRS 8 Operating Segments.			non-exchange transaction by major class, showing separately taxes and transfers and the major classes thereof.	as well as reconciliations of the totals of segment revenues, reported segment surplus or deficit, segment assets, segment liabilities and other material segment items to corresponding entity amounts. However, because GRAP 18 is not yet effective in the public sector, this disclosure requirement is not part of GRAP 9, 11 or 23.
15.116. An entity shall disclose all of the following: (a) the opening and closing balances of receivables, contract assets and contract liabilities from contracts with customers, if not otherwise separately presented or disclosed; (b) revenue recognised in the reporting period that was included in the contract liability balance at the beginning of the period; and (c) revenue recognised in the reporting period from performance	No equivalent disclosure required	An entity shall present: - the gross amount due from customers for contract work as an asset; and - the gross amount due to customers for contract work as a liability.	GRAP 23 also requires the disclosure of the amount of (b) receivables in respect of non-exchange revenue, (c) liabilities in respect of refunds, (e) liabilities in respect of transferred assets subject to conditions, (f) assets recognised that are subject to restrictions; and (g) any advance receipts or	IFRS 15 requires more qualitative information to allow the users of the financial statements to determine how performance obligations were satisfied. The qualitative information is required in conjunction with the quantitative disclosure on contract assets and liabilities, which will enable the users of the financial statements to better understand the relationship between revenue, receivables and revenue received in advance.

IFRS 15	GRAP 9	GRAP 11	GRAP 23	Difference
obligations satisfied (or partially satisfied) in previous periods (for example, changes in transaction price).			unallocated receipts.	GRAP 23 does not specify that the opening and closing balances of these amounts are required; however, through disclosure of comparative amounts, the movements can be derived from the financial statements.
15.117. An entity shall explain how the timing of satisfaction of its performance obligations (see paragraph 119(a)) relates to the typical timing of payment (see paragraph 119(b)) and the effect that those factors have on the contract asset and the contract liability balances. The explanation provided may use qualitative information.	No equivalent disclosure required.	An entity shall present: - the gross amount due from customers for contract work as an asset; and - the gross amount due to customers for contract work as a liability.	GRAP 23 requires the disclosure of the amount of (b) receivables in respect of non-exchange revenue, (c) liabilities in respect of refunds, (e) liabilities in respect of transferred assets subject to conditions, (f) assets recognised that are subject to restrictions; and (g) any advance receipts or unallocated receipts	IFRS 15 requires more qualitative information to allow the users of the financial statements to determine how performance obligations were satisfied. The qualitative information is required in conjunction with the quantitative disclosure on contract assets and liabilities, which will enable the users of the financial statements to better understand the relationship between revenue, receivables and revenue received in advance. This disclosure is not required by GRAP 23 due to the absence of performance obligation to be

IFRS 15	GRAP 9	GRAP 11	GRAP 23	Difference
				satisfied. However, the performance obligations may be comparable to the conditions on transferred assets referred to in GRAP 23. However, GRAP 23 only requires disclosure of (e) the amount of liabilities recognised in respect of transferred assets subject to conditions and not specifically the revenue recognised from conditions met, although this revenue will be disclosed in terms of GRAP 23.111(a).
15.118. An entity shall provide an explanation of the significant changes in the contract asset and the contract liability balances during the reporting period. The explanation shall include qualitative and quantitative information. Examples of changes in the entity's balances of contract assets and contract liabilities include any of the following: (a) changes due to business	No equivalent disclosure required.	An entity shall present: - the gross amount due from customers for contract work as an asset; and - the gross amount due to customers for contract work as a liability.	GRAP 23 requires the disclosure of the amount of (b) receivables in respect of non-exchange revenue, (c) liabilities in respect of refunds, (e) liabilities in respect of transferred assets subject to conditions, (f) assets recognised that are subject to restrictions;	IFRS 15 requires more information to allow the users of the financial statements to enable the users of the financial statements to better understand the relationship between revenue, receivables and revenue received in advance. Due to the nature of the liabilities recognised in terms of GRAP 23 in respect of non-exchange revenue, this specific disclosure

IFRS 15	GRAP 9	GRAP 11	GRAP 23	Difference
combinations; (b) cumulative catch-up adjustments to revenue that affect the corresponding contract asset or contract liability, including adjustments arising from a change in the measure of progress, a change in an estimate of the transaction price (including any changes in the assessment of whether an estimate of variable consideration is constrained) or a contract modification; (c) impairment of a contract asset; (d) a change in the time frame for a right to consideration to become unconditional (i.e. for a contract asset to be reclassified to a receivable); and (e) a change in the time frame for a performance obligation to be satisfied (i.e. for the recognition of revenue arising from a contract liability).			and (g) any advance receipts or unallocated receipts	is not required. This disclosure is not required by GRAP 23 due to the absence of performance obligation to be satisfied. However, the performance obligations may be comparable to the conditions on transferred assets referred to in GRAP 23.

IFRS 15	GRAP 9	GRAP 11	GRAP 23	Difference
15.119. An entity shall disclose information about its performance obligations in contracts with customers, including a description of all of the following: (a) when the entity typically satisfies its performance obligations, including when performance obligations are satisfied in a bill-and-hold arrangement; (b) the significant payment terms; (c) the nature of the goods or services that the entity has promised to transfer, highlighting any performance obligations to arrange for another party to transfer goods or services; (d) obligations for returns, refunds and other similar obligations; and (e) types of warranties and related obligations.	No equivalent disclosure required.	No equivalent disclosure required.	GRAP 23.111 requires information about: (e) the amount of liabilities recognised in respect of transferred assets subject to conditions; (f) the amount of assets recognised that are subject to restrictions and the nature of those restrictions.	IFRS 15 requires additional information regarding the performance obligations attached to contracts with customers that would allow the users of the financial statements to understand the relationship between revenue recognised and the terms and conditions attached to revenue contracts. Due to the absence of a performance obligation (other than possible conditions), such disclosure is not required by GRAP 23. However, similar disclosure is required for restrictions on assets. GRAP 108.32 requires entities to disclose qualitative information that enables users of its financial statements to evaluate the significance of statutory receivables on its financial position and performance.
15.120. An entity shall disclose the	No equivalent disclosure	No equivalent disclosure	No equivalent disclosure	IFRS 15 requires additional

IFRS 15	GRAP 9	GRAP 11	GRAP 23	Difference
following information about its remaining performance obligations: (a) the aggregate amount of the transaction price allocated to the performance obligations that are unsatisfied (or partially unsatisfied) as of the end of the reporting period; and (b) an explanation of when the entity expects to recognise as revenue the amount disclosed in accordance with paragraph 120(a), which the entity shall disclose in either of the following ways: (i) on a quantitative basis using the time bands that would be most appropriate for the duration of the remaining performance obligations; or (ii) by using qualitative information.	required.	required.	required.	information regarding the performance obligations attached to contracts with customers that would allow the users of the financial statements to understand the relationship between revenue recognised and the terms and conditions attached to revenue contracts. GRAP 23, GRAP 9 and GRAP 11 do not require the allocation of the transaction price to performance obligations, and as a result, these disclosures are not required. GRAP 104.124 requires entities to disclose qualitative information about how exposure risk arises, policies to manage risk and any changes thereof. GRAP 108.34 requires entities to disclose qualitative information to help users of the financial statements understand how the transaction arises and how the

IFRS 15	GRAP 9	GRAP 11	GRAP 23	Difference
				transaction amount is determined.
15.121. As a practical expedient, an entity need not disclose the information in paragraph 120 for a performance obligation if either of the following conditions is met: (a) the performance obligation is part of a contract that has an original expected duration of one year or less; or (b) the entity recognises revenue from the satisfaction of the performance obligation in accordance with paragraph B16.	No equivalent disclosure required.	No equivalent disclosure required.	No equivalent disclosure required.	See the comment above for the disclosures required by IFRS 15.120.
15.122. An entity shall explain qualitatively whether it is applying the practical expedient in paragraph 121 and whether any consideration from contracts with customers is not included in the transaction price and, therefore, not included in the information disclosed in accordance with paragraph 120. For example, an	No equivalent disclosure required.	No equivalent disclosure required.	No equivalent disclosure required.	See the comment above for the disclosures required by IFRS 15.120.

IFRS 15	GRAP 9	GRAP 11	GRAP 23	Difference
estimate of the transaction price would not include any estimated amounts of variable consideration that are constrained (see paragraphs 56–58).				
15.123. An entity shall disclose the judgements, and changes in the judgements, made in applying this Standard that significantly affect the determination of the amount and timing of revenue from contracts with customers. In particular, an entity shall explain the judgements, and changes in the judgements, used in determining both of the following: (a) the timing of satisfaction of performance obligations (see paragraphs 124–125); and (b) the transaction price and the amounts allocated to performance obligations (see paragraph 126).	The Standard requires the entity to disclose the accounting policies adopted for the recognition of revenue including the methods adopted to determine the stage of completion of transactions involving the rendering of services.	GRAP 11.54 An entity shall disclose: (a) the amount of contract revenue recognised as revenue in the period; (b) the methods used to determine the contract revenue recognised in the period; and (c) the methods used to determine the stage of completion of contracts in progress.	The Standard requires the entity to disclose in the notes to the financial statements (a) the accounting policies adopted for the recognition of revenue from non-exchange transactions (b) for major classes of revenue from non-exchange transactions, the basis on which the fair value of inflowing resources was measured (c) for major classes of taxation revenue which the entity cannot measure reliably during the period in which the taxable event occurs, information about	Although neither GRAP 9 nor GRAP 11 & 23 requires disclosure of significant judgements, similar disclosure is required by GRAP 1. GRAP 108.34 requires entities to disclose judgements made in determining if a statutory receivable is impaired.

IFRS 15	GRAP 9	GRAP 11	GRAP 23	Difference
			the nature of tax; and (d) the nature and type of major classes of bequests, gifts, donations showing separately major classes of goods in-kind received.	
15.124. For performance obligations that an entity satisfies over time, an entity shall disclose both of the following: (a) the methods used to recognise revenue (for example, a description of the output methods or input methods used and how those methods are applied); and (b) an explanation of why the methods used provide a faithful depiction of the transfer of goods or services.	The entity is required to disclose the accounting policies adopted for the recognition of revenue including the methods adopted to determine the stage of completion of transactions involving the rendering of services;	The entity is required to disclose the methods used to determine the contract revenue recognised in the period, and the methods used to determine the stage of completion of contracts in progress.	GRAP 23.112 requires an entity to: (a) disclose the accounting policies adopted for recognition of non-exchange revenue and (b) the basis on which the fair value is determined.	IFRS 15 requires additional information regarding the performance obligations attached to contracts with customers that would allow the users of the financial statements to understand the judgement applied in determining the timing of revenue recognition. GRAP 9 & 11 has similar requirements currently, specifically related to using the stage of completion method to determine the amount of revenue to be recognised. The GRAP 23 disclosure requirements are not as explicit as those contained in IFRS 15.

IFRS 15	GRAP 9	GRAP 11	GRAP 23	Difference
15.125. For performance obligations satisfied at a point in time, an entity shall disclose the significant judgements made in evaluating when a customer obtains control of promised goods or services.	The entity is required to disclose the accounting policies adopted for the recognition of revenue including the methods adopted to determine the stage of completion of transactions involving the rendering of services.	The entity is required to disclose the methods used to determine the contract revenue recognised in the period, and the methods used to determine the stage of completion of contracts in progress.	GRAP 23.112 requires an entity to disclose in the notes to the financial statements: (a) the accounting policies adopted for the recognition of revenue from non-exchange transactions.	Although entities are not required by GRAP 9, 11 & 23 to disclose in detail what judgements were made in determining whether control passed, the accounting policies should explain what the entities policies are for control to transfer. GRAP 1.129 - .130 requires entities to disclose how judgement was applied when using the accounting policies.
15.126. An entity shall disclose information about the methods, inputs and assumptions used for all of the following: (a) determining the transaction price, which includes, but is not limited to, estimating variable consideration, adjusting the consideration for the effects of the time value of money and measuring non-cash consideration; (b) assessing whether an estimate	No equivalent disclosure required.	No equivalent disclosure required.	No equivalent disclosure required.	IFRS 15 requires additional information regarding the performance obligations attached to contracts with customers that would allow the users of the financial statements to understand the judgement applied in determining the measurement of revenue. GRAP 108.34 requires entities to disclose qualitative information about how a transaction is determined and how the

IFRS 15	GRAP 9	GRAP 11	GRAP 23	Difference
of variable consideration is constrained; (c) allocating the transaction price, including estimating stand-alone selling prices of promised goods or services and allocating discounts and variable consideration to a specific part of the contract (if applicable); and (d) measuring obligations for returns, refunds and other similar obligations.				transaction amount is determined.
15.127. An entity shall describe both of the following: (a) the judgements made in determining the amount of the costs incurred to obtain or fulfil a contract with a customer (in accordance with paragraph 91 or 95); and (b) the method it uses to determine the amortisation for each reporting period.	No equivalent disclosure required.	An entity shall disclose each of the following for contracts in progress at the reporting date: - the aggregate amount of costs incurred and recognised surpluses (less recognised deficits) to date; - the amount of advances received; and - the amount of retentions.	GRAP 23.112 requires entities to disclose in the notes to the financial statements: (a) the accounting policies adopted for the recognition of revenue from non-exchange transactions; (b) for major classes of revenue from non-exchange transactions, the basis on which the fair value of	There is no specific requirement in the existing Standards of GRAP that deals with the costs incurred to obtain or fulfil a contract.

IFRS 15	GRAP 9	GRAP 11	GRAP 23	Difference
			inflowing resources was measured	
15.128. An entity shall disclose all of the following: (a) the closing balances of assets recognised from the costs incurred to obtain or fulfil a contract with a customer (in accordance with paragraph 91 or 95), by main category of asset (for example, costs to obtain contracts with customers, pre-contract costs and setup costs); and (b) the amount of amortisation and any impairment losses recognised in the reporting period.	No equivalent disclosure required	An entity shall disclose each of the following for contracts in progress at the reporting date: - the aggregate amount of costs incurred and recognised surpluses (less recognised deficits) to date; - the amount of advances received; and - the amount of retentions.	GRAP 23.112 requires entities to disclose in the notes to the financial statements: (a)the accounting policies adopted for the recognition of revenue from non-exchange transactions; (b) for major classes of revenue from non-exchange transactions, the basis on which the fair value of inflowing resources was measured	See the comment on the disclosure required by IFRS 15.127.
15.129. If an entity elects to use the practical expedient in either paragraph 63 (about the existence of a significant financing component) or paragraph 94 (about the incremental costs of obtaining a contract), the entity	No equivalent disclosure required	No equivalent disclosure required	No equivalent disclosure required	IFRS 15 requires disclosure of the use of practical expedients. These practical expedients are not specifically mentioned in GRAP 9, 11 or 23. Although practical expedients are allowed in GRAP 104 and GRAP 108, no

IFRS 15	GRAP 9	GRAP 11	GRAP 23	Difference
shall disclose that fact.				specific disclosure is required for expedients.