



**ANALYSIS AND RESPONSES TO VERBAL COMMENT
RECEIVED ON**

**PROPOSED INTERPRETATIONS OF THE STANDARDS
OF GENERALLY RECOGNISED ACCOUNTING
PRACTICE ON**

ADJUSTMENTS TO REVENUE

(ED 164 AND ED 165)



RESPONSES TO THE VERBAL COMMENT RECEIVED ON THE PROPOSED INTERPRETATIONS OF THE STANDARDS OF GRAP ON *ADJUSTMENTS TO REVENUE* (ED 164 AND ED 165)

The Accounting Standards Board (Board) approved the exposure of the proposed Interpretations of the Standards of GRAP (IGRAPs) on *Adjustments to Revenue* (ED 164 and ED 165) in May 2018 for comment. A Notice was published in the Government Gazette on 22 June 2018 (Notice 41722). The comment period closed on 31 August 2018.

The proposed IGRAPs were discussed with users, preparers, auditors and consultants by way of workshops, roundtable discussions and other meetings as listed in the table on the next page.

The results from the workshops, roundtable discussions and other meetings are summarised below, and include the Board's responses to the comment received.

CLASSIFICATION OF VERBAL COMMENT RECEIVED ON THE PROPOSED INTERPRETATIONS OF THE STANDARDS OF GRAP ON ADJUSTMENTS TO REVENUE (ED 164 AND ED 165)

No.	Name/Organisation	Preparers	Users	Auditors	Other interested parties
1.	CIGFARO KwaZulu Natal	√	√		
2.	SALGA and CIGFARO joint consultative sessions held in: <ul style="list-style-type: none"> • Gauteng; • KwaZulu Natal; • Eastern Cape; and • Limpopo 	√	√		
3.	Department of Cooperative Governance and Traditional Affairs (COGTA)		√		
4.	Office of the Accountant-General		√		
5.	Roundtable discussion with users		√		
6.	Roundtable discussions with users, auditors, consultants and other technical advisors		√	√	√
7.	Public Sector Accounting Forum	√	√	√	√
8.	SAICA Public Sector Financial Reporting Project Group				√



**ANALYSIS AND RESPONSES TO COMMENTS ON THE PROPOSED
INTERPRETATIONS OF THE STANDARDS OF GRAP ON
ADJUSTMENTS TO REVENUE (ED 164 AND ED 165)**

COMMENTS ON ED 164 AND ED 165 PROPOSED INTERPRETATIONS OF THE STANDARDS OF GRAP ON ADJUSTMENTS TO REVENUE		
No.	Comments	Board's response
	SPECIFIC MATTER FOR COMMENT #1	
	<p>The Board proposes amendments to IGRAP 1 to clarify that other factors should be considered in applying the probability test on initial recognition of revenue.</p> <p>Do you agree that the proposed amendments clarify how, and when an entity should consider factors, other than the collectability of revenue, in assessing the inflow of future economic benefits or service potential to the entity? Please explain your response.</p>	
1.1	SALGA and CIGFARO Joint Consultative Sessions	
	Participants supported the proposed clarification on how and when an entity should consider other factors in applying the probability test on initial recognition of revenue.	Noted. No further action required.
1.2	COGTA	
	Participants supported the proposed clarification on how and when an entity should consider other factors in applying the probability test on initial recognition of revenue.	Noted. No further action required.



**ANALYSIS AND RESPONSES TO COMMENTS ON THE PROPOSED
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ADJUSTMENTS TO REVENUE (ED 164 AND ED 165)**

No.	Comments	Board's response
1.3	Office of the Accountant-General	
	<p>The proposed clarification on how and when an entity should consider other factors in applying the probability test on initial recognition of revenue is supported.</p> <p>It will, however, be problematic to consider other factors that will impact the probable inflow of future economic benefits or service potential if the entity does not have reliable information, based on past experience, to enable it to make the assessment.</p>	<p>Noted. The IGRAP clarifies that management's judgement should be based on past experience and current facts and circumstances when considering other factors that exist on the initial recognition of revenue that will impact the probable inflow of future economic benefits or service potential.</p> <p>Estimates inherently include a level of uncertainty and should therefore be based on information that is relevant, understandable and verifiable, based on past experience and current facts and circumstances. The entity should be able to present information that supports its professional judgement.</p>
1.4	Roundtable with users	
	<p>Participants supported the proposed clarification on how and when an entity should consider other factors in applying the probability test on initial recognition of revenue.</p>	<p>Noted. No further action required.</p>
1.5	Roundtable with users, auditors, consultants and other technical advisors	
	<p>Participants supported the proposed clarification on how and when an entity should consider other factors in applying the probability test on initial recognition of revenue.</p>	<p>Noted. No further action required.</p>



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No.	Comments	Board's response
1.6	Public Sector Accounting Forum	
	<p>Participants supported the proposed clarification on how and when an entity should consider other factors in applying the probability test on initial recognition of revenue.</p> <p>It was proposed that the term “uncollectability” should be reconsidered or explained as it may imply a wider range of issues than just the counterparty’s credit risk.</p>	<p>Noted.</p> <p>The guidance in IGRAP 1 has been clarified to explain that the collectability of revenue is based on an entity’s exposure to credit risk. An entity should not consider the probability of collection based on credit risk on the initial recognition of revenue, but should apply judgement in considering other factors in assessing the inflow of future economic benefits or service potential when applying the probability test on the initial recognition of revenue. Clarification has also been included in the basis for conclusions to explain the principle.</p>
1.7	SAICA Public Sector Financial Reporting Project Group	
	<p>Participants supported the proposed clarification on how and when an entity should consider other factors in applying the probability test on initial recognition of revenue.</p>	<p>Noted. No further action required.</p>



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No.	Comments	Board's response
	SPECIFIC MATTER FOR COMMENT #2	
	<p>Paragraph .13 of the proposed IGRAP on <i>Adjustments to Revenue</i> includes guidance to assist an entity to distinguish between the correction of an error and a change in an accounting estimate following an adjustment to revenue charged in terms of legislation or similar means.</p> <p>(a) In your view, will the clarification in paragraph .13 assist an entity to assess whether an adjustment to revenue is a correction of an error or a change in an accounting estimate? Please explain your response.</p> <p>(b) Are there any other considerations, in addition to paragraph .13, that an entity could consider in distinguishing between the correction or an error and a change in an accounting estimate? Please explain your response.</p>	
2.1	SALGA and CIGFARO Joint Consultative Sessions	
	<p>Participants supported inclusion of the additional guidance to distinguish between an error and a change in an accounting policy.</p> <p>No additional considerations to distinguish between an error and a change in an accounting estimate were noted.</p>	Noted. No further action required.



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No.	Comments	Board's response
2.2	COGTA	
	<p>The additional guidance on how to distinguish between an error and a change in an accounting estimate is useful, even though, applying judgement is subjective.</p> <p>No additional considerations to distinguish between an error and a change in an accounting estimate were noted.</p>	Noted. No further action required.
2.3	Roundtable discussion with users	
	<p>Participants supported the proposed clarification on the distinction between an error and a change in an accounting estimate.</p> <p>No additional considerations to distinguish between an error and a change in an accounting estimate were noted.</p>	Noted. No further action required.



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No.	Comments	Board's response
2.4	Roundtable with users, auditors, consultants and other technical advisors	
	<p>Participants noted that the additional guidance in paragraph .13 will assist users to distinguish between an error and a change in an accounting estimate.</p> <p>More clarification can, however, be provided on the phrase “reasonably expected to know” to make the application of the clarification included in paragraph .13 less subjective.</p>	<p>Noted.</p> <p>In considering whether an entity could reasonably have been expected to know of information, professional judgement needs to be applied. In applying professional judgement, an entity needs to consider information that is relevant and verifiable based on past experience and current facts and circumstances. An entity should be able to present information that supports management’s professional judgement.</p> <p>Clarification has been included in the basis for conclusions to address the comment.</p>
2.5	Public Sector Accounting Forum	
2.5.1	<p><i>Clarification included in paragraph .13</i></p> <p>The Forum agreed that the clarification provided in ED 164 will assist entities to distinguish between an error and a change in a change in an accounting estimate.</p>	<p>Noted. No further action required.</p>



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No.	Comments	Board's response
Public Sector Accounting Forum (continued)		
2.5.2	<p><i>Other factors to consider in distinguishing between an error and a change in an accounting estimate</i></p> <p>In assessing whether an adjustment is an error or a change in an accounting estimate, the entity can assess whether the matter is within its control. Where the matter is outside the control of the entity, for example as a result of changes in legislation, it is likely to result in change in an accounting estimate rather than an error.</p> <p>An entity can also consider compliance with its internal policies to assess whether an adjustment to revenue is a change in an accounting estimate or an error. Where internal policies are not followed, the adjustment to revenue is likely to be an error.</p>	<p>Noted.</p> <p>The basis for conclusions has been amended to explain that these considerations are examples of information that becomes known to the entity and should be considered in accounting for adjustments to revenue already recognised.</p>
2.6 SAICA Public Sector Financial Reporting Project Group		
	<p>Participants supported the clarification on the distinction between an error and a change in an accounting estimate.</p> <p>No additional considerations to distinguish between an error and a change in an accounting estimate were noted.</p>	<p>Noted. No further action required.</p>



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No.	Comments	Board's response
	GENERAL MATTERS FOR COMMENT	
	ED 164 <i>Accounting for Adjustments to Revenue</i>	
3.1	SALGA and CIGFARO Joint Consultative Sessions	
	<p>The Board should consider cost versus benefit in developing guidance on adjustments to revenue, as it could be costly to account for an adjustment to revenue retrospectively where it is concluded that the adjustment is a correction of an error.</p>	<p>Noted. There will always be a cost involved in presenting information to the users of financial statements. However, entities need to provide information to users to hold entities accountable and for decision making purposes.</p> <p>The principles in the IGRAP are based on the requirements in GRAP 3 on <i>Accounting Policies, Changes in Accounting Estimates and Errors</i>. GRAP 3 requires prior period errors to be accounted for retrospectively.</p>



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No.	Comments	Board's response
3.2	COGTA	
3.2.1	Based on the volume of transactions that are undertaken by some entities, they may find it difficult to identify all adjustments to revenue. Thus, unless they have the necessary systems in place and they are effective, not all adjustments to revenue may be accounted for.	Noted. To ensure that all adjustments to revenue already recognised are accounted for appropriately, an entity needs to ensure that appropriate processes are in place that will enable it to provide relevant information to users to hold entities accountable and for decision making purposes.
3.2.2	<p>The proposed IGRAP does not provide guidance on the accounting of the underlying receivable or payable.</p> <p>Participants questioned whether the accounting for the adjustment to revenue as an error or a change in an accounting estimate will be impacted where, for example, the valuation Board at a municipality concluded that the debtor's account should be adjusted retrospectively following the outcome of a review, appeal or objection.</p>	<p>Noted. The IGRAP and basis for conclusions have been clarified to explain that changes to the measurement of receivables and payables, other than those changes arising from applying the IGRAP, should be dealt with in accordance with the applicable Standards of GRAP.</p> <p>The outcome of the appeal or objection will not impact the accounting of the adjustment to revenue already recognised. Even though the adjustment to the receivable is calculated retrospectively, an entity still needs to apply the principles in the IGRAP to assess if the adjustment to revenue already recognised should be accounted retrospectively when it is a correction of an error, or prospectively when the adjustment to revenue is a change in an accounting estimate.</p>



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No.	Comments	Board's response
COGTA (continued)		
3.2.3	<p>The guidance included in the proposed IGRAP is useful to all types of revenue charged or levied by an entity. The Board should consider expanding the guidance in the new IGRAP to all types of revenue and not only restrict the guidance to revenue charged in terms of legislation or similar means.</p>	<p>Noted. The Board initially agreed that guidance should be developed to clarify the accounting for adjustments to exchange or non-exchange revenue already recognised that is charged in terms of legislation or similar means, following the completion of a review, appeal or objection provided for in legislation or similar means.</p> <p>The Board subsequently agreed that the guidance can be applied, by analogy, to adjustments to revenue that arises from contractual arrangements where disputes or other adjustments arise and are resolved using similar mechanisms than those outlined in the IGRAP. The IGRAP and its basis for conclusions have been clarified to explain the application of the principles to revenue that arises from contractual arrangements.</p>
3.2.4	<p>Participants supported the Board's conclusion that refunds are part of adjustments to revenue and that an adjustment to revenue that results in a refund, should be accounted for in a similar manner as other adjustments to revenue, i.e. as either an error or a change in an accounting estimate.</p>	<p>Noted. No further action required.</p>



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No.	Comments	Board's response
COGTA (continued)		
3.2.5	<p>The prospective application of the proposed IGRAP is supported.</p> <p>The Board should consider determining the effective date as soon as possible, as preparers need the guidance in the IGRAP to avoid any further audit issues that may result from the accounting for adjustments to revenue.</p>	<p>Noted. As the IGRAP is based on the principles in GRAP 3 that have been effective for a number of years, and to address the divergent practice as a matter of urgency, the Board agreed that the IGRAP should be effective for financial periods commencing on or after 1 April 2020. Earlier application is permitted.</p>
3.3 Office of the Accountant-General		
3.3.1	<p>Participants recommended that the proposed IGRAP should clarify whether adjustments to revenue charged for water and electricity usage are within the scope of the proposed IGRAP. Participants were of the view that, as water and electricity charges are prescribed through by-laws and/or similar pronouncements, the principles in the proposed IGRAP are applicable to water and electricity tariffs.</p>	<p>Noted. As water and electricity tariffs are legislated, any adjustments to the water and electricity usage, and estimations applied to charge for the consumption of water and electricity, are within the scope of this IGRAP. The scope of the IGRAP has been amended to clarify that the guidance applies to exchange and non-exchange transactions. In addition, the basis for conclusions was amended to explain that revenue levied through by-laws or similar pronouncements is revenue charged in terms of legislation or similar means.</p>



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No.	Comments	Board's response
Office of the Accountant-General (continued)		
3.3.2	The proposed IGRAP should clarify that the subsequent measurement of the receivable or payable is outside the scope of the guidance provided in this pronouncement.	Noted. The scope and basis for conclusions of the IGRAP were clarified to explain that changes to the measurement of receivables and payables, other than those changes arising from applying this IGRAP, are dealt with in accordance with the applicable Standards of GRAP.
3.3.3	The Board should delay the effective date to allow entities time to implement the IGRAP, considering that a number of new Standards of GRAP become effective on 1 April 2019. Some entities are also still experiencing implementation challenges with other reforms such as mSCOA.	Noted. Refer to the response to comment 3.2.5.
3.4 Roundtable with users		
	Participants recommended that the proposed IGRAP should become effective soon after the Board has approved the final pronouncement as the guidance is needed to address inconsistencies.	Noted. Refer to the response to comment 3.2.5.



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No.	Comments	Board's response
3.5	Roundtable with users, auditors, consultants and other technical advisors	
3.5.1	<p>GRAP 3 defines a change in an accounting estimate in relation to adjustments to assets and liabilities. This definition is used as the basis for providing guidance on when an adjustment to revenue is a change in an accounting estimate.</p> <p>Participants recommended that the basis for conclusions should include an explanation on how the GRAP 3 definition of a change in an accounting estimate is applied to adjustments to revenue.</p>	Noted. An explanation has been included in the basis for conclusions as proposed.
3.5.2	Paragraph .05(d) should clarify that the proposed IGRAP does not provide guidance on the subsequent measurement of the asset and/or liability but merely explains how revenue recognised in terms of legislation or similar means, should subsequently be adjusted following the outcome of a review, appeal or objection.	Noted. Refer to the response to comment 3.3.2.
3.5.3	The principle established in paragraph .13 to consider new information that becomes known to the entity, should be included as indicators in paragraphs .16 and .18 of when an adjustment to revenue is a correction or an error or a change in an accounting estimate.	Noted. Clarification has been included in the IGRAP to explain that (a) following the outcome of the appeal, objection or review processes allowed for in legislation or similar means, and (b) after assessing the new information that becomes known to the entity, the entity needs to consider the principles in paragraphs .16 to .18 in assessing whether an adjustment to revenue already recognised is a correction of an error or a change in an accounting policy.



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No.	Comments	Board's response
3.5	Roundtable with users, auditors, consultants and other technical advisors (continued)	
3.5.4	Paragraph .17 should be amended to explain that where an error is identified in the current reporting period, it should be corrected before the financial statements are authorised for issue. The principles in GRAP 3 should be applied to account for prior period errors.	Noted. The paragraph has been amended as proposed.
3.5.5	Participants proposed that the IGRAP should clarify whether water and electricity charges are within the scope of the IGRAP.	Noted. The scope of the IGRAP has been amended to clarify that it applies to adjustments to exchange and non-exchange revenue already recognised (also refer to the response to comment 3.3.1).
3.5.6	Participants questioned whether municipalities can use estimates to charge users for the consumption of water and electricity, and where these estimates differ from actual usage, whether the adjustment be accounted for as a change in accounting estimate or a correction of an error.	Entities may use estimates to charge users for water and electricity consumption. In making these estimates, the entity should apply professional judgement based on past experience and current facts and circumstances. An entity should, as far as possible, make use of actual information when recognising revenue. In applying professional judgement, an entity needs to consider information that is relevant and verifiable based on past experience and current facts and circumstances. The entity should be able to present information that supports its professional judgement.



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No.	Comments	Board's response
Roundtable with users, auditors, consultants and other technical advisors (continued)		
3.5.7	Participants questioned how the adjustment to revenue should be accounted for where the municipality applied an incorrect basis to estimate the monthly consumption of water and electricity usage.	The IGRAP clarifies that, if information becomes known to the entity, and the entity could reasonably have been expected to know of the information, and/or that the information used was incorrect, the adjustment to revenue already recognised is likely to be a correction of an error. Where a municipality applied an incorrect basis to estimate the monthly consumption of water and electricity, or did not consider all the information it could reasonably have been expected to know, the adjustment to revenue already recognised is likely to be a correction of an error.
3.5.8	Example 1 should be amended to explain the reason why the property value was overstated. The fact pattern should indicate that the entity considered all the available and relevant information when charging the revenue, and that the overstatement was not as a result of an error by the entity.	Noted. The example has been amended.
3.6 Public Sector Accounting Forum		
3.6.1	The impact of refunds due to entities, for example where a legal case is finalised and the legal fees are repayable to the entity, should be clarified in the proposed IGRAP. In practice, entities are not sure whether the repayment of such fees is a reversal of the initial legal fee paid, or whether it is a separate transaction that will result in revenue.	Noted. The refund of an expense, i.e. legal fees, is outside the scope of this IGRAP, as the scope indicates that the guidance applies to the accounting for adjustments to revenue already recognised in terms of legislation or similar means.



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No.	Comments	Board's response
Public Sector Accounting Forum (continued)		
3.6.2	<p>The requirements to account for an error should be clarified in the proposed IGRAP where the error was corrected within the same financial period.</p> <p>It was questioned that, where an entity did not implement the VAT increase in the month that it became effective, should the financial statements provide disclosures of the error, even if it was corrected in the same financial period prior to the publication of the financial statements.</p>	Agreed. Refer to the response to comment 3.5.4.
3.7 SAICA Public Sector Financial Reporting Project Group		
3.7.1	<p>In order to assess if an entity could have reasonably been expected to know of the new information that becomes available, it needs to build up information on trends based on past experience. If such information does not exist, it will be difficult to conclude that an adjustment to revenue is a change in an accounting estimate.</p> <p>The Board should therefore allow entities some time to build up the information in order to meet the requirements in the IGRAPs. As such, the Board should consider allowing a longer implementation by extending the effective date.</p>	Noted. Refer to the response to comment 3.2.5.



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No.	Comments	Board's response
SAICA Public Sector Financial Reporting Project Group (continued)		
3.7.2	<p>The principles in the new IGRAP are based on the principles in existing Standards of GRAP, i.e. GRAP 3. Participants questioned whether the auditors will allow entities time to implement the new IGRAP as per the effective date determined by the Board, or whether the auditors will apply the requirements in the GRAP Standards immediately. If entities are audited against the principles in the Standards of GRAP prior to the proposed IGRAP becoming effective, it could result in an increased number of audit qualifications.</p>	<p>Noted. The Board agreed to develop guidance on accounting for adjustments to revenue already recognised to address the diversity in practice. Until the pronouncement becomes effective for financial periods commencing on or after 1 April 2020, entities can continue to account for adjustments to revenue already recognised in accordance with their accounting policies that are aligned with the Standards of GRAP. Auditors cannot require or compel entities to early adopt a pronouncement prior to the effective date of 1 April 2020.</p>



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No.	Comments	Board's response
ED 165 Proposed Amendments to IGRAP 1 <i>Applying the Probability Test on Initial Recognition</i>		
4.1 SALGA and CIGFARO Joint Consultative Session		
	<p>Some local authorities encourage early settlement of municipal accounts by providing settlement discounts to ratepayers. Respondents questioned whether these settlement discounts should be taken into account in applying the probability test on initial recognition of revenue.</p>	<p>The amendments to IGRAP 1 require an entity to consider, among others, early settlement discounts, rebates or similar reductions in assessing the future economic benefits or service potential on initial recognition of revenue. Therefore, discounts provided to encourage early settlement should be considered in applying the probability test on initial recognition.</p>
4.2 Roundtable with users, auditors, consultants and other technical advisors		
	<p><i>Illustrative example 2</i></p> <p>The fact pattern in the example should be expanded to explain the reason why some traffic fines become void, and why traffic fines that may become void, should be considered in applying the probability test on initial recognition of revenue.</p>	<p>Noted. The example has been amended.</p>



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No.	Comments	Board's response
4.3	SAICA Public Sector Financial Reporting Project Group	
	<p>An entity that applies IFRS Standards requested that the Board should reconsider the principles in IGRAP 1 that require an entity to recognise all the revenue it is entitled to, and obligated to collect. If an entity charged the revenue, but on initial recognition already knows that some revenue will be uncollectable, it is unclear why the full amount of revenue should be recognised along with an impairment, rather than to only recognise the amount that will be collectable.</p>	<p>Noted. The principles in IGRAP 1 interpret a specific Standard of GRAP that requires an entity to recognise the full amount of exchange and non-exchange revenue due to it as a result of the legislative obligation that requires an entity to exercise accountability over all amounts of revenue due to it.</p> <p>Entities that prepare financial statements in accordance with IFRS Standards should not apply IGRAP 1. These entities should apply the applicable IFRS Standard to recognise for revenue.</p>