



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

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

ADJUSTMENTS TO REVENUE

(ED 164 AND ED 165)



RESPONSES TO WRITTEN 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 Board received 4 comment letters, including comment from the Department of Treasury of the Free State Province that issued a questionnaire to which the entities listed in the table on the next page responded. The results of the formal comment process are summarised below, and include the Board's responses to the comment received.

In addition to the comment letters received, the proposed IGRAPs were also discussed with preparers, auditors and consultants by way of workshops, roundtable discussions and other meetings. The summary of comment received during these discussions is included in a separate analysis.

CLASSIFICATION OF WRITTEN 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.	Submission by the Free State Department of Treasury, including inputs from the following entities: <ul style="list-style-type: none"> • Department of Economic, Small Business Development, Tourism and Environmental Affairs (DESTEA) • Department of Education • Department of Provincial Treasury • Department of Cooperative Governance and Traditional Affairs (COGTA) • Department of Public Works and Infrastructure • Department of Police, Roads and Transport • Free State Gambling, Liquor & Tourism Authority (FSG&TA) 	√ √ √ √ √ √	√ √		
2.	South African Institute of Chartered Accountants (SAICA) – Public Sector Financial Reporting Project Group				√
3.	South African Revenue Service (SARS)	√			
4.	Peet du Plessis	√			



**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 <i>ADJUSTMENTS TO REVENUE</i>		
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	Free State Department of Treasury	
1.1.1	<p>Most of the departments and entities agreed with the proposed changes and implementation there-of.</p> <p>The department of Education indicated that although paragraph .13 is clear on how an entity can assess whether an adjustment to revenue is a correction or an error or a change in an accounting estimate, there is a significant amount of subjectivity involved with regard to the reasonability of having expected to know of such information.</p>	<p>Noted. No further action required.</p>



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No.	Comments	Board's response
Free State Department of Treasury (continued)		
1.1.2	<p><i>Department of Police, Roads and Transport</i></p> <p>Yes.</p> <p>The proposed amendment are to clarify that initial recognition should be in line with both the accounting and the legislative requirements. Therefore the recognition of revenue should be on the gross basis with regards to the collectability.</p> <p>Clarity is however required with regard to example 2 in ED 165 (page 11) as it illustrates that the Department would need to reasonably estimate the number of traffic fines that could be void as a result of incorrect information provided by the infringer on the infringement notice. How would this process unfold as the Department is reliant on the information provided and is not in a position to access national data bases to obtain and verify the information? Due to the Province being centrally located, a large number of infringements are from commuters passing by and are not located in the data available to the Department.</p>	<p>Noted. The amendment to IGRAP 1 clarifies that, other than the uncertainty about the collectability of revenue, an entity should consider other factors when determining the probability of the inflow of future economic benefits and service potential on the initial recognition of revenue.</p> <p>IGRAP 1 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> <p>Example 2 has been amended to clarify that estimates made by the local authority should be based on past experience and current facts and circumstances.</p>



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No.	Comments	Board's response
1.2	SAICA	
	<p>In line with the IAS 18 & IFRS 15, it is crucial to apply probability test on revenue for initial recognition. IGRAP 1 full recognition creates confusion in the public sector (for entities using IFRS) for revenue streams which are not adequately covered by the IFRS. IGRAP 1 tends to be used to mislead numbers being repeated on the face and have negative taxation implications. For example TV licence has low collection rates and section 11j normally limits tax deduction to Commissioners normal deduction rate of 25% of provision for doubtful debts. Entities with similar nature of revenue streams are therefore heavily impacted.</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.</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 revenue.</p>
1.3	SARS	
	<p>SARS agrees that on initial recognition it is not appropriate to assume that revenue will not be collected as the entity has an obligation to collect revenue. Other factors such as rebates and discounts should be considered. These factors are usually legislated and known at initial recognition. In the SARS context, a tax assessment will take into account all allowable tax credits and deductions before determining the amount of revenue due and payable.</p>	<p>Noted. No further action required.</p>



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No.	Comments	Board's response
1.4	Peet du Plessis	
	I agree that IGRAP 1 should provide more clarity to an entity on the factors that could impact on the inflow of cash.	Noted. No further action required



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ADJUSTMENTS TO REVENUE (ED 164 AND ED 165)**

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	Free State Department of Treasury	
	<p><i>Department of Police, Roads and Transport</i></p> <p>No, not entirely.</p> <p>Paragraph .13 indicates that the assessment is based on whether the entity could reasonable have known of the information when the revenue was charged. This required a high level of judgement that will be very difficult to apply at a subsequent date (example during the year-end audit). As time has passed it becomes difficult to determine and support the judgement taken at the time of the transaction, should the information have changed. More clarity is required on this matter.</p>	<p>Noted. The comment cannot be addressed through the Standards of GRAP as it relates to an auditing matter.</p> <p>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 its professional judgement.</p>



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No.	Comments	Board's response
2.2	SAICA	
2.2.1	The proposed clarity improves interpretation.	Noted. No further action required.
2.2.2	I think it's quite clear. We should be mindful of the standard not to be too prescriptive and allow professional judgment to prevail and the professionals can apply themselves.	Noted. The IGRAP is not prescriptive but allows an entity to apply professional judgement to assess if an adjustment to revenue is a correction of an error or a change in an accounting estimate.
2.3	SARS	
2.3.1	<p>The clarification in paragraph. 13 will assist an entity assessing whether there is an adjustment to revenue as a correction of error or a change in accounting estimate. This paper makes it easier for a reader to distinguish between a change in accounting estimates and correction in error in terms of GRAP 3.</p> <p>It is recommended that paragraph further refers not only to new information that becomes known to the entity, but also to different interpretations of legislation. When revenue changes as a result of a different interpretation of legislation, the acceptance of the different interpretation becomes the new information available and will therefore be a change in accounting estimate.</p> <p>It is business as usual for SARS to receive objections and appeals which effectively results in changes to legal interpretation and therefore amendments to tax assessments.</p>	<p>Noted.</p> <p>As there are several examples that exist, the paragraph cannot specifically refer to new interpretations of legislation that become available. New interpretations of legislation is 'new information that becomes known to the entity' which could impact the initially recognised revenue. The basis for conclusions has been amended to indicate that interpretations of legislation are examples of new information that become known to an entity which should be considered in accounting for adjustments to revenue already recognised.</p>



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No.	Comments	Board's response
SARS (continued)		
2.3.2	The wording in paragraph 13 is sufficient, if read together with paragraphs 16-19.	Noted. No further action required.
2.4 Peet du Plessis		
2.4.1	Par 13(a) It should be a change in accounting estimate, over and under valuation or property is in most instances not attributable to errors but to assessment by the valuer.	Noted. The entity should ensure that appropriate processes are in place to scrutinise and test the information provided by valuers and other professionals so that reliance can be placed on information.
2.4.2	Par 13(b) Each case should be evaluated, there could be errors but this is certainly not the norm.	Noted. Refer to the response to comment 2.4.1.



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No.	Comments	Board's response
GENERAL MATTERS FOR COMMENT		
3.	SARS	
	We welcome the interpretation guidance. The exposure drafts clarify the application of GRAP 3 and GRAP 23 to accounting for revenue, which was previously not clear in IGRAP 1. The interpretation drafts are adequately detailed to provide sufficient guidance on the application of the standard.	Noted. No further action required.