



ACCOUNTING STANDARDS BOARD

DIRECTIVE 6

TRANSITIONAL PROVISIONS FOR REVENUE COLLECTED BY THE SOUTH AFRICAN REVENUE SERVICE (SARS)

**Issued by the
Accounting Standards Board
March 2014**



Directive 6

Copyright © 2016 by the Accounting Standards Board

All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted, in any form or by any means, electronic, mechanical, photocopying, recording, or otherwise, without the prior permission of the Accounting Standards Board. The approved text is published in the English language.

Permission to reproduce limited extracts from the publication will not usually be withheld.



Introduction

The Accounting Standards Board (the Board) is required in terms of the Public Finance Management Act, Act No. 1 of 1999, as amended (PFMA), to determine generally recognised accounting practice referred to as Standards of Generally Recognised Accounting Practice (GRAP).

The Board must determine GRAP for:

- (a) departments (including national, provincial and government components);
- (b) public entities;
- (c) trading entities (as defined in the PFMA);
- (d) constitutional institutions;
- (e) municipalities and boards, commissions, companies, corporations, funds or other entities under the ownership control of a municipality; and
- (f) Parliament and the provincial legislatures.

The above are collectively referred to as “entities”.

The Board has approved the application of International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board for:

- (a) public entities that meet the criteria outlined in Directive 12 on *The Selection of an Appropriate Reporting Framework by Public Entities*; and
- (b) entities under the ownership control of any of these entities.

Section 89(1)(b) of the PFMA, requires the Board to prepare and publish directives and guidelines concerning the Standards of GRAP as set in paragraph 89(1)(a) of the PFMA. The *Preface to the Standards of GRAP* determines that directives will be used to set transitional provisions and transitional arrangements for the entities required to comply with Standards of GRAP. Directives issued by the Board in terms of section 89(1)(b) of the PFMA therefore have the same authority as the Standards of GRAP.

Directives should be read in conjunction with the relevant Standard(s) of GRAP, as well as the *Preface to the Directives issued by the Accounting Standards Board*.



DIRECTIVE ON TRANSITIONAL PROVISIONS FOR REVENUE COLLECTED BY THE SOUTH AFRICAN REVENUE SERVICE (SARS)

Objective

- .01 The objective of this Directive is to outline the transitional provisions for monies collected by the South African Revenue Service (SARS) for the National Revenue Fund and other entities (hereafter referred to as “revenue” in this Directive).
- .02 Standards of GRAP set out the recognition, measurement, presentation and disclosure requirements for financial reporting in the public sector in South Africa. As a result, this Directive should be read in conjunction with the relevant Standard(s) of GRAP.

Scope

- .03 This Directive shall be applied by SARS in accounting for revenue collected for the National Revenue Fund and other entities. This Directive applies only to the revenue collected by the South African Revenue Service (SARS) for the National Revenue Fund and other entities and any directly associated transactions or activities. This Directive does not apply to any other transactions or activities undertaken by SARS, the National Revenue Fund, or any other entities where SARS collects revenue on their behalf.
- .04 Where the National Revenue Fund, and other entities that are recipients of revenue collected by SARS, use Standards of GRAP in preparing their own financial statements, they need not comply with the requirements of the Standards outlined in paragraphs .07 and .08 in respect of the revenue collected by SARS until the transitional provisions in this Directive expire, or the revenue collected is accounted for by SARS, in accordance with Standards of GRAP (whichever is earlier).
- .05 The relevant Standards of GRAP shall be applied by SARS in determining whether transactions should be recognised in the financial statements as either an agent or a principal.



Transitional provisions

General

- .06 When SARS, and the National Revenue Fund or other entities which have revenue collected for them by SARS, initially adopts Standards of GRAP for revenue collected for the National Revenue Fund and other entities, the Standard of GRAP on *Accounting Policies, Changes in Accounting Estimates and Errors* shall be applied. The Standard on *Accounting Policies, Changes in Accounting Estimates and Errors* requires SARS to apply the requirements of the Standards being adopted retrospectively.
- .07 SARS is not required to recognise revenue collected for the National Revenue Fund or other entities, and any directly associated transactions, in accordance with Standards of GRAP for reporting periods beginning on a date within six years of the reporting period commencing on 1 April 2012. SARS is permitted to change its accounting policy for the recognition of revenue, and any directly associated transactions, incrementally on a class by class basis.
- .08 As a result of the relief provided in paragraph .07, SARS is not required to comply with the recognition, initial and subsequent measurement, and related presentation and disclosure requirements of the following Standards of GRAP until the transitional provisions in paragraph .07 expire, or revenue is recognised in accordance with the relevant Standards of GRAP (whichever is earlier):
- (a) *Revenue from Exchange Transactions*.
 - (b) *Inventories*, insofar as the Standard applies to the recognition and measurement of goods forfeited, seized or otherwise held by SARS, where the eventual proceeds from disposing of these goods will result in revenue for the National Revenue Fund or another entity.
 - (c) *Leases*, insofar as the Standard applies to recognition and initial measurement of revenue and the related receivables, where this will result in revenue for the National Revenue Fund or another entity.
 - (d) *Revenue from Non-exchange Transactions (Taxes and Transfers)*.
 - (e) *Provisions, Contingent Liabilities and Contingent Assets*, insofar as the Standard applies to the recognition and/or measurement of refunds or similar liabilities arising from exchange or non-exchange revenue transactions.



Directive 6

- (f) *Financial Instruments*, insofar as the Standard applies to the recognition and/or measurement of receivables related to revenue arising from contractual arrangements that otherwise meet the definition of financial instruments.
 - (g) *Statutory Receivables*, insofar as the Standard applies to the recognition and/or measurement of receivables that arise from legislation, regulations or similar means and otherwise meet the definition of a statutory receivable.
 - (h) *Accounting by Principals and Agents*, insofar as the Standard applies to the assessment of the recognition of receivables and payables related to revenue transactions undertaken as an agent. The Standard should however be used to determine if SARS should recognise transactions as an agent or a principal.
- .09 Once SARS changes its accounting policy for revenue, or a particular class of revenue, to a policy based on Standards of GRAP, it must simultaneously recognise, initially measure, present and disclose any directly associated transactions, in accordance with the applicable Standards of GRAP. SARS may use the remaining transitional period to comply with the subsequent measurement requirements (and any related disclosure requirements) of any assets and liabilities that arise from any directly associated transactions.
- .10 Until revenue, and any directly associated transactions, is recognised in accordance with the relevant Standards of GRAP or the transitional provisions have expired (whichever is earlier), SARS applies the presentation requirements of the following Standards of GRAP to the extent possible:
- (a) *Presentation of Financial Statements*.
 - (b) *Cash Flow Statements*.
- .11 SARS is not required to apply the following Standards of GRAP until such time as all revenue is recognised or the transitional provisions have expired (whichever is earlier):
- (a) *Segment Reporting* (if applicable).
 - (b) *Presentation of Budget Information in Financial Statements*.

If this information is however already presented by SARS, then SARS applies the presentation requirements of these Standards to the extent possible.

Application of transitional provisions

Change in accounting policy for the recognition of revenue

- .12 The transitional provisions in paragraph .07 do not require SARS to change its accounting policies, to those based on Standards of GRAP, in respect of the recognition of revenue collected for the National Revenue Fund and other entities, within six years commencing on 1 April 2012. These transitional provisions allow SARS a period of time to develop reliable models for recognising revenue during the initial adoption of Standards of GRAP. As a result, SARS may apply accounting policies for the recognition and/or measurement of revenue, and any directly associated transactions, that do not comply with the relevant Standards of GRAP during the six year period. The transitional provisions also allow SARS to apply the Standards of GRAP incrementally to different classes of revenue.

Relief from applying specific Standards of GRAP

- .13 Paragraph .08 outlines the Standards of GRAP that SARS is not required to comply with during the six year transitional period. The relief provided in paragraph .08 means that SARS is not required to comply with the Standards of GRAP on:
- (a) *Revenue from Exchange Transactions, Revenue from Non-exchange Transactions (Taxes and Transfers), and Leases* in the recognition and measurement of revenue, and the recognition and initial measurement of any directly associated receivables;
 - (b) *Accounting by Principals and Agents*, in the initial recognition and measurement of receivables and payables for transactions undertaken as an agent;
 - (c) *Financial Instruments and Statutory Receivables*, in the initial and subsequent measurement of receivables arising from exchange and non-exchange revenue transactions, including the recognition and measurement of interest, penalties or other charges levied on outstanding receivables;
 - (d) *Inventories*, in the recognition and, initial and subsequent measurement, of inventories arising from exchange or non-exchange revenue transactions; and
 - (e) *Provisions, Contingent Liabilities and Contingent Assets*, in the initial recognition and measurement (both initial and subsequent) of refunds or similar liabilities directly associated with exchange and non-exchange revenue transactions.
- .14 Although paragraph .08 allows SARS a period of six years to recognise revenue, once it recognises revenue or classes of revenue in accordance with the Standards of GRAP, it must at the same time recognise and initially measure any directly associated receivables, payables or any other associated assets and liabilities in accordance with the Standards of GRAP. This simultaneous recognition and



Directive 6

measurement of revenues and related receivables, payables and other assets and liabilities, ensures that a complete financial position is reflected. Although simultaneous recognition of revenue and any directly associated assets and liabilities is required, SARS is not required to comply with the subsequent measurement requirements of the relevant Standards of GRAP for those assets and liabilities at the time of recognition. SARS may use the remaining transitional period to comply with the subsequent measurement requirements of the relevant Standards.

Disclosure

- .15 When SARS takes advantage of the transitional provisions in paragraph .07, it shall disclose that fact in the financial statements. SARS shall also disclose the following:
- (a) The classes of revenue, and any directly associated transactions, which are recognised and/or measured in accordance with the relevant Standards of GRAP.
 - (b) The classes of revenue, and any directly associated transactions, which are recognised and/or measured under an accounting policy that is not consistent with the requirements of the relevant Standards of GRAP.
 - (c) The plan for implementing accounting policies that are consistent with the relevant Standards of GRAP.
 - (d) The classes of revenue, and any directly associated transactions, previously recognised or measured on another basis, but which were recognised or measured in accordance with the relevant Standard of GRAP during the reporting period.
 - (e) Progress towards implementation of accounting policies that are consistent with the relevant Standards of GRAP.
 - (f) Where accounting policies that are based on Standards of GRAP are adopted during the reporting period, a reconciliation of its previously reported accumulated surplus or deficit, to its accumulated surplus or deficit reported using accounting policies that are consistent with Standards of GRAP.
 - (g) The date on which full compliance with the requirements of Standards of GRAP is expected.

Effective date



Directive 6

- .16 This directive shall be applied from 1 April 2012 for all effective Standards of GRAP. The Minister of Finance determines the effective dates for Standards of GRAP.



Directive 6

Withdrawal of Directive 6 *Transitional Provisions for the Revenue Collected by the South African Revenue Service (2009)*

- .17 This Directive supersedes Directive 6 *Transitional Provisions for the Revenue Collected by the South African Revenue Service* issued in 2009. Once this Directive is approved, Directive 6 *Transitional Provisions for the Revenue Collected by the South African Revenue Service* issued in 2009 is withdrawn.