ISSUED JUNE 2018

EXECUTIVE SUMMARY – ADJUSTMENTS TO REVENUE

This Executive Summary provides an overview of the proposed Interpretation of the Standards of GRAP on *Accounting for Adjustments to Revenue* (ED 164) and the proposed amendments to IGRAP 1 *Applying the Probability Test on Initial Recognition of Revenue* (ED 165)	**Overview**	The Accounting Standards Board issued the proposed Interpretation of the Standards of GRAP on *Accounting for Adjustments to Revenue* (ED 164) and proposed amendments to the Interpretation of the Standards of GRAP on *Applying the Probability Test on Initial Recognition of Revenue* (IGRAP 1) (ED 165) in May 2018.
	Project objectives	Various legislative and other regulatory processes are in place that enables public sector entities to levy revenue on individuals and entities. Legislation or similar means also establish processes that enable the person or entity on whom the revenue was levied, to appeal and/or object the revenue charged. These processes may result in an adjustment to the recognised revenue by the public sector entity. The objective of ED 164 is to clarify whether the adjustments to revenue should be accounted for as (a) a change in an accounting estimate, or (b) a correction of an error. Clarification was also required about how an entity should consider other factors that may impact the assessment of the probability of future economic benefits or service potential on the initial recognition of revenue charged in terms of legislation or similar means. As a result, ED 165 was issued to propose amendments to IGRAP 1.
	Next steps	The proposals in ED 164 and ED 165 will be modified in the final documents in the light of comment received from respondents during the comment process
	Comment deadline	Comment on ED 164 and ED 165 is due on 31 August 2018.

EXECUTIVE SUMMARY

ED 164 AND ED 165 – ADJUSTMENTS TO REVENUE

Background to the project	
History of the project	A number of legislative or regulatory processes are in place that governs how entities charge revenue, in particular, whether any specific process needs to be followed by the entity to determine the tariff, basis, percentage or formula that is used to charge revenue. Legislation or similar means also often outlines how the person or entity charged with the revenue can appeal and/or object the revenue charged, which may include: (a) a process established by the entity that charged the revenue; (b) specific legislation or similar means that establishes an appeal and/or an objection process; and/or (c) another legal process. In addition, the entity that charges the revenue can also apply its own internal review process to assess if the revenue was charged correctly in terms of the prescribed tariff, basis, percentage or formula as promulgated in legislation or similar means. As the processes outlined above can take some time to complete, the outcome of the review, appeal and/or objection may not necessarily be completed within the same reporting period as the period in which the revenue was initially recognised. This may result in the accounting for an adjustment to revenue that was recognised in a previous reporting period. Over the last few years, a number of issues have been raised by stakeholders on whether an adjustment to revenue should be treated as a change in accounting estimate, or as a correction of an error, and whether the accounting will be different if the revenue was recognised in a previous reporting period. Most issues were raised in the context of non-exchange revenue transactions such as property rates, fines or levies, but the issues are also prevalent to other types of revenue charged by entities in terms of legislation or similar means. Following the consultation on its 2017 to 2020 work programme, the Board agreed to develop guidance on accounting for adjustments to revenue to address the concerns raised by stakeholders. The Board also agreed to clarify IGRAP 1 to explain how an entity applies the probability test on the initial recognition of the revenue charged in terms of legislation or similar means.

EXECUTIVE SUMMARY

ED 164 AND ED 165 – ADJUSTMENTS TO REVENUE

Overview of ED 164	
Scope	
What guidance is provided in the proposed Interpretation of the Standards of GRAP (IGRAP)?	ED 164 provides guidance on when an adjustment to revenue, following the completion of an internal review and/or external appeal or objection process, should be accounted for as a correction or an error, or a change in an accounting estimate. The accounting requirements in the proposed Interpretation also apply to adjustments to interest and penalties that arise from the recognised revenue. The accounting for adjustments to revenue includes the treatment of refunds.
What are the scope exclusions in the proposed IGRAP?	ED 164 does not provide guidance on: (a) the classification of revenue as either exchange or non-exchange revenue; (b) the assessment of whether the entity undertakes transactions as the principal or agent in a principal-agent arrangement; and (c) the accounting of receivables or payables following any adjustments to the recognised revenue. Guidance on the application of the probability test on initial recognition of revenue is provided in IGRAP 1.

EXECUTIVE SUMMARY

ED 164 AND ED 165 – ADJUSTMENTS TO REVENUE

Accounting for adjustments to revenue	
When will an entity account for an adjustment to revenue as a correction or an error or prior period error?	An adjustment to revenue is accounted for as the correction of an error or prior period error where the entity that charged the revenue: (a) did not follow a proper due process to promulgate the tariff, basis, percentage or formula to charge the revenue; and/or (b) incorrectly applied the tariff, basis, percentage or formula in charging revenue.
When will an entity account for an adjustment to revenue as a change in an accounting estimate?	An adjustment to revenue is accounted for as the correction of an error or prior period error where: (a) changes occur in the circumstances that led to the recognition of the revenue; or (b) as a result of new information that becomes known to the entity that charged the revenue.
How does an entity distinguish between errors and changes in accounting estimates?	An entity applies judgement to determine whether an adjustment to revenue charged in terms of legislation or similar means constitutes a correction or an error or a change in an accounting estimate. The entity may also apply the following to determine whether the adjustment to revenue is a correction or an error or a change in an accounting estimate: (a) If new information becomes known to the entity, but the entity could not reasonably have been expected to know of this information when the revenue was charged, the adjustment to revenue is likely to be a change in an accounting estimate. (b) 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 is likely to be the correction of an error.

EXECUTIVE SUMMARY

ED 164 AND ED 165 – ADJUSTMENTS TO REVENUE

Transitional provisions and effective date	
Should the proposed IGRAP be applied prospectively or retrospectively?	The proposed IGRAP should be applied prospectively to any revenue charged in terms of legislation or similar means following the effective date of the IGRAP.
When will the proposed IGRAP become effective?	The Board will determine the effective date for the proposed IGRAP after considering the comment on ED 164 and ED 165.

EXECUTIVE SUMMARY

ED 164 AND ED 165 – ADJUSTMENTS TO REVENUE

Overview of ED 165	
Amendments proposed to IGRAP 1	
Summary of key amendments proposed	Following its obligation to collect all revenue due to it in terms of legislation or similar means, IGRAP 1 currently requires an entity to initially recognise the full amount of revenue it is entitled to collect. The uncollectabilty of revenue as result of impairment is considered as a subsequent event. . IGRAP 1 has been clarified to indicate that an entity should however consider other factors in determining the amount of revenue that should be recognised on initial recognition, based on the probable inflow of future economic benefits or service potential. These factors may include early settlement discounts granted by the entity, or rebates or similar reductions based on the satisfaction of certain criteria. Where the revenue charged in terms of legislation or similar means is subject to a legal or similar regulatory process of which the outcome may only be known on completion of the process, the proposed amendments to IGRAP 1 require the entity to take this fact into consideration when assessing the future economic benefits or service potential on initial recognition. An entity applies judgement when considering other factors based on past experience and current facts and circumstances.
Transitional provisions and effective date	
Should the proposed amendments to IGRAP 1 be applied prospectively or retrospectively?	The proposed amendments to IGRAP1 should be applied prospectively.

EXECUTIVE SUMMARY

ED 164 AND ED 165 – ADJUSTMENTS TO REVENUE

Transitional provisions and effective date	
When will the proposed amendments to IGRAP 1 become effective?	The Board will determine the effective date for the proposed IGRAP after considering the comment on ED 164 and ED 165.
How to access information	
Access information on the ASB and its work programme online	Visit our website on www.asb.co.za Subscribe to our Newsletter Access the translated versions of the Standards