

# IGRAP 20

## *Adjustments to Revenue*



ACCOUNTING STANDARDS BOARD





# Disclaimer

***The views and opinions expressed in this presentation are those of the individual. Official positions of the ASB on accounting matters are determined only after extensive due process and deliberation.***





# Overview

- Background
- Problem statement
- IGRAP 20
- Changes to IGRAP 1





# Background to IGRAP 20

- Legislative & regulatory processes govern how revenue is charged, levied or calculated
- Adjustments to recognised revenue following outcome of external appeal or objection:
  - (a) process established by entity that charged revenue
  - (b) specific legislation or similar means that establishes process;





# Background to IGRAP 20

(c) another legal process

- Entity that charged revenue can also apply own internal policy to assess if revenue was charged correctly



# Problem statement

*These processes may take some time to complete thus adjustments to revenue may occur in different reporting periods. Does adjustment to recognised revenue following outcome of internal or external process result in an error or change in an accounting estimate?*



# IGRAP 20 addresses....

IGRAP 20 clarifies the accounting for adjustments as a result of the completion of review, appeal or objection that are made to:

Exchange or non-exchange revenue charged to legislation/similar mean

Interest and penalties arising from the revenue charged



# IGRAP 20 addresses....

Adjustments to revenue already recognised, including interest and penalties, when:

- (a) a due process was not followed in promulgating tariff, basis, percentage or formula used;
- (b) tariff, basis, percentage or formula was incorrectly applied to charge revenue; and/or
- (c) estimates need revision as a result of changes in circumstances on which estimate is based or due to new info







# IGRAP 20 does not address....

- Classification of revenue as exchange or nonexchange
- Application of probability test on initial recognition
- Assessing whether transaction is undertaken as principal or agent
- Accounting for receivables and payables following any adjustments



# Is it an error or a change in accounting estimate?

## Change in accounting estimate

- An adjustment of the carrying amount of an asset or a liability, or the amount of the periodic consumption of an asset, that results from the assessment of the present status of, and expected future benefits and obligations associated with, assets and liabilities.

Need to apply judgement

## Errors

- Omissions from, and misstatements in entity's f/s for one or more prior periods arising from a failure to use, or misuse of, reliable information that:
  - (a) was available when f/s for those periods were authorised for issue; and
  - (b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those f/s.





# When is the adjustment an error?

- Adjustments to revenue (including interest & penalties) are accounted for as **an error or prior period error** when entity:
  - has not followed a proper due process to promulgate the tariff, basis, percentage or formula to charge the revenue;
  - incorrectly applied the tariff, basis, percentage or formula in charging revenue; and/or





# When is the adjustment an error?

- info becomes known to entity and entity could reasonably have been expected to know of the info and/or that the info used was incorrect

Errors are accounted for retrospectively





# When is the adjustment a change in estimate?

- Adjustments to revenue (including interest & penalties) is accounted for as **a change in an accounting estimate** when:
  - changes occur in the circumstances that led to the recognition of the revenue; and/or
  - info becomes known to entity and entity could not reasonably have been expected to know of the info when revenue was charged

**Changes in accounting estimates are accounted for prospectively**





# Accounting for refunds

What about refunds that become payable following the outcome of an internal and/or external process?

- Refunds are **part of adjustments to revenue** as it is an overstatement of revenue already recognised
- Thus treat as either an error or a change in an accounting estimate





# Effective date

- Effective for periods commencing on or after 1 April 2020
- Prospective application





# Changes to IGRAP 1

- IGRAP 1 clarifies that the initial amount of revenue recognised should reflect all revenue due:
  - consider obligation to collect all revenue due; and
  - other factors that impact entitlement to collect revenue (new)





# Changes to IGRAP 1

- What other factors should be considered in assessing probability of FEB/SP
  - settlement discounts, rebates or similar reductions granted based on satisfaction of certain criteria
  - adjustments to revenue following outcome of appeal or objection process

These estimates are made based on past experience and current facts and circumstances





# Questions?



# Keep informed

# Keep informed

- FAQs.
- COVID-19 - [www.asb.co.za/covid-19/](http://www.asb.co.za/covid-19/)
- Research papers.
- Newsletter.
- Social media.
- Translations of Standards.



# Keep informed

Accounting Guidelines by OAG –  
<https://oag.treasury.gov.za>

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