



ACCOUNTING STANDARDS BOARD

DIRECTIVE

TRANSITIONAL PROVISIONS FOR REVENUE ADMINISTERED BY THE SOUTH AFRICAN REVENUE SERVICE (SARS) (DIRECTIVE 6)



Directive 6

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Introduction

This pronouncement is set out in paragraphs .01 to .21. All paragraphs in this pronouncement have equal authority. The status and authority of appendices are dealt with in the preamble to each appendix. This pronouncement should be read in the context of its objective, its basis for conclusions and/or the basis for conclusions of its international equivalent, if applicable, the *Preface to the Standards of GRAP* and the *Framework for the Preparation and Presentation of Financial Statements*¹.

Standards of GRAP and Interpretations of the Standards of GRAP should also be read in conjunction with any directives issued by the Board prescribing transitional provisions, as well as any regulations issued by the Minister of Finance regarding the effective dates of the Standards, published in the Government Gazette.

Directives should be read in conjunction with the applicable Standards of GRAP and Interpretations of the Standards of GRAP.

¹ In June 2017, the Board replaced the *Framework for the Preparation and Presentation of Financial Statements* with the *Conceptual Framework for General Purpose Financial Reporting*.

Objective

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

Scope

- .03 The Directive prescribes the transitional provisions to be applied by:
 - (a) SARS, for the revenue administered and any directly associated transactions or activities (referred to as “related transactions” in this Directive) undertaken for the National Revenue Fund and other entities; and
 - (b) those affected entities where SARS administers revenue on their behalf and they rely on SARS for information to prepare their financial statements in accordance with Standards of GRAP.

Application by SARS

- .04 This Directive is applied by SARS in accounting for revenue administered for the National Revenue Fund and other entities. The Directive only applies to the revenue administered and any directly associated transactions undertaken by SARS for the National Revenue Fund and other entities, and does not apply to any other transactions undertaken by SARS. SARS applies the transitional provisions and disclosures in paragraphs .07 to .18.

Application by affected entities

- .05 This Directive is applied by those entities for which SARS administers revenue and undertakes related transactions, and which (a) apply Standards of GRAP in preparing their financial statements, and (b) rely on information from SARS to prepare their financial statements. These entities, which are referred to as “affected entities”, apply the transitional provisions and disclosures in paragraphs .07 to .17 and .19.
- .06 The applicable Standards of GRAP shall be applied by SARS and the affected entities in determining whether revenue, and/or any related transactions, should be recognised in the financial statements as either an agent or a principal.

Transitional provisions

General

- .07 When SARS initially adopts Standards of GRAP for revenue administered and/or any related transactions undertaken for the National Revenue Fund and other entities, the

Standard of GRAP on *Accounting Policies, Changes in Accounting Estimates and Errors* (GRAP 3) shall be applied. When the affected entities initially adopt Standards of GRAP for revenue administered and/or any related transactions undertaken on their behalf by SARS, GRAP 3 is also applied. GRAP 3 requires SARS and the affected entities to apply the requirements of the Standards of GRAP being adopted retrospectively.

.08 SARS is:

- (a) not required to recognise revenue administered and/or any related transactions undertaken for the National Revenue Fund or other entities in accordance with Standards of GRAP for reporting periods beginning on a date within eleven years of the reporting period commencing on 1 April 2012; and
- (b) is permitted to change its accounting policy for the recognition and measurement of revenue administered and/or any related transactions incrementally on a class by class basis.

The same relief in (a) and (b) is granted to affected entities for the revenue administered and/or related transactions undertaken on their behalf by SARS.

.09 As a result of the relief provided in paragraph .08, SARS and the affected entities are 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 .08 expire, or the revenue administered and/or any related transactions are recognised in accordance with the applicable Standards of GRAP (whichever is earlier):

- (a) *Revenue from Exchange Transactions* (GRAP 9).
- (b) *Inventories* (GRAP 12), 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 another entity.
- (c) *Leases* (GRAP 13), insofar as the Standard applies to recognition and initial measurement of revenue and the related receivables.
- (d) *Revenue from Non-exchange Transactions (Taxes and Transfers)* (GRAP 23).
- (e) *Provisions, Contingent Liabilities and Contingent Assets* (GRAP 19), insofar as the Standard applies to the recognition and/or measurement of refunds or similar liabilities arising from exchange or non-exchange revenue transactions.
- (f) *Financial Instruments* (GRAP 104), 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* (GRAP 108), insofar as the Standard applies to the recognition and/or measurement of receivables related to revenue arising from legislation, supporting regulations or similar means and otherwise meet the definition of a statutory receivable.

- (h) *Accounting by Principals and Agents* (GRAP 109), 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 or an affected entity should recognise transactions as an agent or a principal.
- .10 Once SARS or an affected entity changes its accounting policy for administered revenue, or a particular class of administered revenue, to a policy based on Standards of GRAP, it must simultaneously change its accounting policies for the recognition, measurement, presentation and disclosure of related transactions so that they comply with the applicable Standards of GRAP. SARS or an affected entity may use the remaining transitional period to change their accounting policies on the subsequent measurement (and any related disclosure requirements) of any assets and liabilities that arise from any related associated transactions so that they comply with Standards of GRAP.
- .11 Until revenue administered, and/or any related transactions, are recognised in accordance with the applicable Standards of GRAP or the transitional provisions have expired (whichever is earlier), SARS and the affected entities apply the presentation requirements of the following Standards of GRAP to the extent possible:
- (a) *Presentation of Financial Statements.*
 - (b) *Cash Flow Statements.*
- .12 SARS and the affected entities are not required to apply the following Standards of GRAP until such time as all revenue administered and/or related transactions are 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 or the affected entities, then SARS and the affected entities apply the presentation requirements of these Standards to the extent possible.

Application of transitional provisions

Change in accounting policy for the recognition of revenue

- .13 The transitional provisions in paragraph .08 do not require SARS to change its accounting policies, to those based on Standards of GRAP, in respect of the recognition of revenue administered and/or any related transactions undertaken for the National Revenue Fund and other entities, within eleven years commencing on 1 April 2012. This relief also extends to the affected entities outlined in paragraph .05.
- .14 The transitional provisions in paragraph .08 expire on 31 March 2023. This is the date on which SARS and the affected entities are required to present financial statements that comply in all respects with Standards of GRAP.

- .15 The transitional provisions allow SARS and affected entities a period of time to develop reliable models for recognising administered revenue during the initial adoption of Standards of GRAP. As a result, SARS and affected entities may apply accounting policies for the recognition and/or measurement of revenue administered, and/or any related transactions that do not comply with the applicable Standards of GRAP during the eleven year period. The transitional provisions also allow SARS and affected entities to apply the Standards of GRAP incrementally to different classes of revenue administered and related transactions.

Relief from applying specific Standards of GRAP

- .16 Paragraph .09 outlines the Standards of GRAP that SARS and the affected entities are not required to comply with during the eleven year transitional period. The relief provided in paragraph .09 means that SARS and the affected entities are not required to comply with the Standards of GRAP on:
- (a) GRAP 9, GRAP 13, and GRAP 23, in the recognition and measurement of revenue, and the recognition and initial measurement of any directly associated receivables;
 - (b) GRAP 109, in the initial recognition and measurement of receivables and payables for transactions undertaken as an agent or a principal;
 - (c) GRAP 104 and GRAP 108, 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) GRAP 12, in the recognition and, initial and subsequent measurement, of inventories arising from exchange or non-exchange revenue transactions; and
 - (e) GRAP 19, in the initial recognition and measurement (both initial and subsequent) of refunds or similar liabilities directly associated with exchange and non-exchange revenue transactions.
- .17 Although paragraph .09 allows SARS and affected entities a period of eleven years to recognise revenue administered and/or any related transactions, once they change their accounting policies for administered revenue, they must at the same time change their accounting policies for the recognition and initial measurement of any directly associated receivables, payables or any other associated assets and liabilities to comply with the Standards of GRAP. This simultaneous change in accounting policies for the recognition and initial measurement of administered revenue and related receivables, payables and other assets and liabilities, ensures that a complete financial position is reflected. SARS and the affected entities are not required to simultaneously change their accounting policies for subsequent measurement of those assets and liabilities at the time of recognition. SARS and the affected entities may use the remaining transitional period to change their accounting policies to comply with the subsequent measurement requirements of the applicable Standards.

Disclosure

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- .18 When SARS takes advantage of the transitional provisions in paragraph .08, it shall disclose that fact in the financial statements. SARS shall also disclose the following:
- (a) The classes of administered revenue, and/or any related transactions, which are recognised and/or measured in accordance with the applicable Standards of GRAP.
 - (b) The classes of administered revenue, and/or any related transactions, which are recognised and/or measured under an accounting policy that is not consistent with the requirements of the applicable Standards of GRAP.
 - (c) The plan for implementing accounting policies that is consistent with the applicable Standards of GRAP.
 - (d) The classes of administered revenue, and/or any related transactions, previously recognised or measured on another basis, but which were recognised or measured in accordance with the applicable Standard of GRAP during the reporting period.
 - (e) Progress towards implementation of accounting policies that are consistent with the applicable 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.
- .19 Where an affected entity applies the relief in paragraph .05, it shall also present the disclosures outlined in paragraphs .18(a), (b), (c), (d), (f) and (g) (to the extent that they are not already prescribed by another Directive).

Effective date

- .20 This Directive shall be applied from 1 April 2012.

Withdrawal of Directive 6 *Transitional Provisions for the Revenue Collected by the South African Revenue Service (2014)*

- .21 This Directive supersedes the Directive on *Transitional Provisions for the Revenue Collected by the South African Revenue Service* (Directive 6) issued in 2014. Once this Directive is approved, Directive 6 issued in 2014 is withdrawn.