Annexure 6

Policies: Change in Accounting Policy Relating to Third Stream Income

CHANGE IN ACCOUNTING POLICIES RELATING TO 3RD STREAM INCOME

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1. Background

During the year under review, management undertook a detailed review of the University's accounting policies relating to 3rd Stream Income. This was done to address the following matters:

- To enable us to provide reliable and more relevant information about the effects of our 3rd stream income during the year it was received and avoid unnecessarily deferring income to future years
- To simplify reporting thereby reducing reporting turnaround times
- To deal with historical income reporting challenges
- To clearly define our accounting practices relating to 3rd stream income
- To address previous policy inadequacies

In terms of International Accounting Standard (IAS 8.14). an entity is permitted to change an accounting policy only if the change:

- is required by a standard or interpretation or;
- results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the entity's financial position, financial performance, or cash flows

We submit this report to seek approval of the Finance Committee of Council of the envisioned change in accounting policies as detailed below.

2. Discussion

Below is a comparison of the old and proposed new accounting policies:

Income stream	**Old Accounting Policy**	**New Accounting Policy**
Research income	Contract income is recognized when certain milestones are achieved. Commercial contract income is recognised when the performance obligations have been met in the financial period in which the service is rendered. If the services rendered exceed the payments, a contract asset is recognised. Non-commercial and other contract income is recognised to the extent that expenses are incurred over the period. The balance is recognised as deferred income in the statement of financial position. Revenue is recognised overtime as and when the services are provided.	***a) Research income in the scope of IAS 20*** Revenue is recognised in the financial period in which the University becomes entitled to the use of those funds. Funds in the possession of the University that it cannot use until some specified future period or occurrence are recognised upon receipt and thereafter are held in a restricted use fund until the financial period in which the funds may be used. ***b) Research income in the scope of IFRS 15*** Research income within the scope of IFRS 15 is recognised over time when contractual milestones are achieved. In terms of IFRS15, revenue is to be recognised when performance obligations have been satisfied. In the case where funds have been received for Research Contracts in advance that relate to future periods, a contract liability is recognised on the difference between the funds received and the amount of service rendered.

Income stream	Old Accounting Policy	New Accounting Policy
Income for designated purposes	Donations and gifts are recognised on receipt at fair value. Donations in kind are recognised at fair value.	Income received for designated purposes may arise from private gifts, grants, donations and income on specifically purposed endowments. In all cases, any such revenue or other operating income is recognised in the financial period in which the University becomes entitled to the use of those funds. Funds in the possession of the University that it cannot use until some specified future period or occurrence are recognised upon receipt and are thereafter held in a restricted use fund until the financial period in which the funds may be used. Private gifts, grants and donations with no specific condition in relation to either the expenses they aim to compensate, the period in which they need to be spent or conditions to repay when certain conditions are not fulfilled, etc. but with stipulation that the gift, grant or donation should be used to compensate certain type of expenditure (e.g. bursaries, projects, etc) are recognised as income at the fair value of the consideration received in the period in which they are received. Funds in the possession of the University that it cannot use until some specified future period or occurrence are recognised upon receipt and thereafter are held in a restricted use fund until the financial period in which the funds may be used.

3. Impact of change

In terms of IAS 8, If a change in accounting policy is required by a new IASB standard or interpretation, the change is accounted for as required by that new pronouncement or, if the new pronouncement does not include specific transition provisions, then the change in accounting policy is applied retrospectively. [IAS 8.19]

Retrospective application means adjusting the opening balance of each affected component of equity for the earliest prior period presented and the other comparative amounts disclosed for each prior period presented as if the new accounting policy had always been applied. [IAS 8.22]

From our preliminary assessment, we envisage the following impact:

- Increase in income recognised in 2019 financial year
- Increase in accumulated funds
- Reduction of Deferred income balance
- Recognition of Contract liabilities where Contract income recognised in terms of IFRS 15 is not utilised at the end of the financial period.

Should the committee approve the change as proposed, management will present a report on the full impact of the change at the next meeting.

4. Recommendation

It is hereby recommended that the members of the Finance Committee of Council deliberate on this submission for the purposes of:

(a) Performing an assessment of the appropriateness of the new accounting policies as proposed.

(b) Approving the change and;

(c) Recommending the report to Council for noting and\or ratification.