



## Technical Advisory Group

### AGENDA ITEM: TAGCP02-02

November 4, 2019 – Virtual Meeting

## Volunteer Services In-Kind

<b>Summary</b>	Accounting for volunteer time has been identified as a specific issue for the not-for profit sector. This paper brings together material gathered from national and international standard setters.
<b>Purpose/Objective of the paper</b>	To allow TAG members to consider the nature of the issue, potential ways forward and text for inclusion in the Consultation Paper.
<b>Other supporting items</b>	TAGCP01 – 06 Approach to the Consultation Paper Development and TAGCP01 – 08 Specific Issue – Volunteer Services In-Kind.
<b>Prepared by</b>	Gillian McKay

<b>Actions for this meeting</b>	Advise on: <ul style="list-style-type: none"><li>• The description of the issue</li><li>• The list of alternatives to address the issue</li><li>• Links to other international standard development, national standards or other guidance</li><li>• The need for any further input</li></ul>
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## Volunteer Services In-Kind

### 1. Consultation Paper Draft

- 1.1 At the TAG meeting on October 3-4, the TAG provided feedback on the paper for Volunteer Services In-Kind. The text in part 2 of this paper has been updated to take account of the TAG's Advice and Requests, with the aim of the text being capable of being inserted directly into the Consultation Paper, subject to any drafting comments.

**Question 1: Does the TAG agree with the overall approach and section headings used in the drafting?**

**Question 2: What comments does the TAG have on Sections 1 and 2?**

**Question 3: Does the summary of national-level guidance in Section 3, together with Annex A, accurately reflect the current national standards/guidance? Is the TAG aware of any other guidance on accounting for volunteer time issued by national standard setters or other regulatory bodies that should be included in the Consultation Paper?**

**Question 4: Does the summary of current international guidance in Section 4, together with Annex A, accurately reflect the current international standards/guidance?**

**Question 5: Does the TAG agree with the descriptions of the three alternatives, their respective pros and cons, and that they should be included in the Consultation Paper?**

**Question 6: What are the TAG's views on the colour coding of the alternatives?**

**Question 7: What comments does the TAG have on the initial draft SMCs included in the paper?**

### 2. Next steps

- 2.1 The text drafted below will be included in the Consultation Paper subject to any further comments from the TAG and input from the PAG.
- 2.2 The PAG will be asked for its view on the proposals contained in this paper. As requested by the TAG, the PAG will be asked if there are jurisdictional differences in the ability to reliably measure volunteer services in-kind.

**Question 8: Is there any further specific input to be sought from the PAG about the proposed alternatives?**



## **Draft Consultation Paper Text**

### Volunteer Services In-Kind

#### **1. Description of the issue**

- 1.1 NPOs often benefit from the contribution of unpaid volunteers in support of their activities. These volunteers can provide services as part of their trade or profession or can engage in general volunteering such as street collections or charity events.
- 1.2 Placing a monetary value on their contributions can present significant difficulties. For example, charities might not employ additional staff were volunteers not available, or volunteers might complement the work of paid staff rather than replace them.
- 1.3 The issue is important in order to understand more fully the cost of NPO operations and how these are funded. A consistent approach across similar NPOs would allow a more informed comparison of their operations.

#### **2. Accounting questions raised**

- 2.1 Volunteer services in-kind raise accounting questions because they may or may not meet the definition of an asset (i.e. the entity controlling a resource from which it is likely to obtain future economic benefits or service potential).
- 2.2 If the service does meet the definition of an asset, it may be difficult to measure it with sufficient reliability that it can be recognised, for example in the absence of clear market prices.
- 2.3 NPO's may also receive services from volunteers which they would not otherwise hire if not given freely, and this might also raise question about how to establish a reliable measurement of these services.
- 2.4 Trade or professional services may be more easily measured based on comparable services being provided in the market place. For example, the standard in the United States gives examples of services requiring specialised skills as those provided by '*accountants, lawyers, nurses, plumbers, teachers and other professionals and craftsmen*'<sup>1</sup>. However, the costs of preparing this information maybe disproportionate to the benefits where there are challenges in arriving at a reliable measurement or the entity is small and does not have the resources to provide the information

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<sup>1</sup> Examples 7-11 of ASC 958-605-55 (paragraphs 52-68).



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- 2.5 In addition there are considerations about whether the benefit provided by volunteers is consumed immediately, or could be used to construct an asset.

## 3. **National-level guidance**

- 3.1 Annex A shows that there are similarities in the treatment of volunteer time in national-level guidance. There is a strong consensus across these jurisdictions about the basis for recognition, with alignment to international standards around the definition of an asset. Differences are principally concerned with the level of choice about recognition of volunteer time and disclosure requirements. All agree that where volunteer time is recognised it should be measured at fair value although differences may exist as to what is meant by fair value.
- 3.2 Recognition is permitted but not required across a number of jurisdictions including New Zealand, Canada, France and public benefit entities not part of the government sector in Australia. In all other jurisdictions, where data was gathered, recognition is required if the definition of an asset is met.
- 3.3 Recognition of services provided from a trade or profession is required in the UK and the USA, with recognition of general volunteering prohibited unless a test for enhancement is met. Guidance about potential differences in general and trade and professional volunteering time is not drawn out in other jurisdictions.
- 3.4 The UK, USA and New Zealand specifically require recognition of volunteer services in-kind if those services are used to create or construct assets. Other jurisdictions are silent on this issue in their guidance, but the application of relevant standards is likely to achieve the same outcome.

## 4. **Relevant International guidance**

- 4.1 Neither IFRS nor IFRS for SMEs specifically address non-exchange transactions. However, they do provide general recognition criteria for assets and the measurement bases to be adopted when assets are to be recognised.
- 4.2 Within the International Public Sector Accounting Standards, the accounting treatment of volunteer time is specifically addressed in *IPSAS 23, Revenue from Non-Exchange Transactions (Taxes and Transfers)*<sup>2</sup>. Under IPSAS 23 an entity may, but is not required to, recognise services in-kind as revenue and as an asset.
- 4.3 IPSASB is currently viewing its standards on revenue including revenue from non-exchange transactions following the issue of *IFRS15 Revenue from Contracts with Customers*. IPSASB is currently scheduled to issue its Exposure Draft in Quarter 1 2020. Services in-kind and related disclosures are being considered as part this Exposure Draft. Currently, IPSASB is

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<sup>2</sup> IPSAS 23 Revenue from no-exchange transactions (taxes and transactions) Services in Kind paragraphs 98-103



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likely to strengthen the steer towards recognition without making it mandatory.

## 5. Alternative accounting treatments

- 5.1 The alternative treatments that could be adopted for this issue, together with the associated pros and cons are set out below. Each alternative is traffic lighted to indicate its technical accounting strength. Alternatives coloured green and technically strong, those coloured amber have a technical base and are pragmatically acceptable and those coloured red have weak technical merit.
- 5.2 In considering Volunteer Services in-Kind the theoretical alternative of not recording and/or disclosing volunteer time at all is not proposed given the significant role that volunteers play in the not-for-profit sector.
- 5.3 Additional guidance about criteria for recognition, for example, a criteria that a service is more likely to be recognised if it is a service that would otherwise have been paid, is a feature of alternatives 1 and 2.
- 5.3 Based on the analysis of relevant national and international guidance three alternative treatments with the associated pros and cons are set out below.

	Description	Pros	Cons
<b>Alternative 1</b>	<b>Require recognition</b> of volunteer time at fair value where it meets defined criteria and can be reliably measured. The Guidance would set out recognition criteria that would allow the distinction between general volunteers (unlikely to be recognised) and trade and professional volunteers (potentially recognised). The Guidance would also set out the basis of the fair value measurement. The accounting policy for volunteer time is to be disclosed alongside narrative disclosures <b>in the notes to the accounts</b> about the role of volunteers, the nature and type of volunteer services including, where	<p>Comparability of financial information and reporting across all entities</p> <p>Additional guidance on recognition criteria</p> <p>Consistent with IFRS for SMEs and IPSAS.</p> <p>Standardisation of disclosures</p>	<p>The cost may outweigh the benefit, particularly for smaller entities.</p> <p>Time/cost of auditing additional disclosures</p>



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	practical, an estimate of the quantum of services in kind provided.		
<b>Alternative 2</b>	<p><b>Permit recognition</b> of volunteer time at fair value where it meets defined criteria and can be reliably measured. The Guidance would set out recognition criteria that would allow the distinction between general volunteers (unlikely to be recognised) and trade and professional volunteers (potentially recognised). The Guidance would also set out the basis of the fair value measurement. The accounting policy for volunteer time is to be disclosed alongside narrative disclosures <b>in the notes to the accounts</b> about the role of volunteers, the nature and type of volunteer services including, where practical, an estimate of the quantum of services in kind provided.</p>	<p>Pragmatic option particularly for smaller entities</p> <p>Additional guidance on recognition criteria</p> <p>Consistent with IPSAS</p> <p>Standardisation of disclosures</p>	<p>Lack of consistency across similar entities.</p> <p>Inconsistent with IFRS for SMEs that requires recognition</p> <p>Time/cost of auditing additional disclosures</p>
<b>Alternative 3</b>	<p><b>Disclosure only</b> of volunteer services in-kind within the <b>notes to the accounts</b>. The disclosures are to provide information to users about the nature and type of volunteer services and the degree to which the entity relies on these services for operational delivery. This is to include details on the quantum of services in-kind provided by type of volunteers.</p>	<p>Consistent with IPSAS</p> <p>Standardisation of disclosures.</p> <p>Disclosures are audited.</p>	<p>May practically result in Alternative 1 or 2 as entities could recognise if criteria in extant standards are met, so may have no value as a separate alternative.</p> <p>Time/cost of auditing additional disclosures</p> <p>Inconsistent with IFRS for SMEs</p>



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## **Specific Matters for Comment**

**Do you agree that the list of alternative treatments that should be considered for international financial reporting guidance on accounting for volunteer services in-kind is exhaustive? If not, please describe your additional proposed alternatives, and explain why they should be considered.**

**Do you agree with the pros and cons articulated for each alternative accounting treatment? If you do not agree, please set out the changes you propose, and why these should be made.**

**Please identify the alternative treatment that you favour, and the reasons for your view.**

**[Draft generic questions for further discussion]**

## Annex A – Volunteer services in kind – International comparison

	UK	Australia	New Zealand	Canada	USA	France	Colombia	IFRS/IPSAS
<p><b>Alternative 1: Require recognition</b> of volunteer time at fair value where it meets defined criteria and can be reliably measured.</p>	<p>Volunteer services for services which a charity would otherwise have purchased are recognised at the value that would have been paid in an open market.</p> <p>Charities are required to include a description of the role played by general volunteers and provide an indication of the nature of their contribution in a note to the accounts.</p>	<p>Government bodies recognise volunteer services at fair value if they can be reliably measured and if they would have been purchased if they had not been donated.</p> <p>Entities are encouraged to disclose narrative information about the entity's dependence arising from volunteer services it receives including those not recognised.</p>	<p>Volunteer services that are used to construct an asset are recognised at the fair value.</p> <p>Entities are encouraged to disclose the nature and type of major classes of services in-kind received, including those not recognised.</p>		<p>Volunteer services that either create or enhance a non financial asset or require specialist skills that would need to have been purchased if not provided by donation. Recognition is at fair value.</p> <p>All entities are required to disclose services, including the programs or activities benefitting, regardless of whether they are recognised.</p>		<p>As per IFRS for SMEs</p>	<p>Recognition and measurement concepts consistent with IFRS for SMEs</p> <p>IPSAS 23 permits this. Entities are encouraged to disclose the nature and type of major classes of services in-kind received including those not recognised under IPSAS 23.</p>
<p><b>Alternative 2: Permit recognition</b> of volunteer time at fair value where it meets defined criteria and can be reasonably measured.</p>		<p>Volunteering services may be recognised at fair value if they can be measured reliably (Not for Profit entities not in the public sector)</p> <p>Entities are encouraged to disclose narrative information about the entity's dependence</p>	<p>Tier 1 and Tier 2 entities may recognise volunteering services that they control and which can be reliably measured at fair value.</p> <p>For Tier 3 entities recognition of volunteering services is optional, with a requirement for information</p>	<p>Volunteering services may be recognised at fair value if they can be measured reliably, are in the normal course of business, would otherwise have been purchased or have been used to construct an asset.</p>		<p>Volunteer services that are significant to the entity and can be reliably measured are recognised.</p> <p>An entity is required to disclose the rationale and the nature and importance of the service that are recognised due to practical</p>		<p>IPSAS 23 – as above.</p> <p>Recognition and measurement concepts consistent with IFRS for SMEs but the standard does not have optionality</p>



		arising from volunteer services it receives including those not recognised.	about significant services received.			and other reasons.		
<b>Alternative 3:</b> Disclosure only of volunteer services in-kind within the notes to the accounts.	See above for disclosures	See above for disclosures	See above for disclosures	See above for disclosures	See above for disclosures	See above for disclosures	See above for disclosures	IPSAS 23 as above.  IFRS for SMEs requires recognition if the definition of an asset is met.
<b>Accounting references</b>	<p>Paragraphs 6.18 and 6.19 of <a href="#">SORP (FRS102)</a></p> <p>Example at: <a href="http://www.charitySORP.org/media/632825/articles_theatre_trust_frs102.pdf">http://www.charitySORP.org/media/632825/articles_theatre_trust_frs102.pdf</a></p>	<p>AASB 1058 <i>Income of not for profit entities</i></p> <p>Illustrative Example 12 of <a href="#">AASB 1058</a> gives an example of accounting for volunteer services.</p>	<p><b>Tier 1 and Tier 2 PBE Standards</b></p> <p>paragraphs 98-103 and B21 of <a href="#">PBE IPSAS 23 Revenue from Non-Exchange Transactions</a>.</p> <p><b>Tier 3 Simple Format Reporting</b></p> <p>paragraph A68 of <a href="#">Public Benefit Entity Simple Format Reporting – Accrual (Not-for-profit)</a>.</p>	<p>Under public Sector Accounting (PSA) Handbook, the guidance is similar to Part III of the CPA handbook</p>	<p>Creation or enhancement of assets: ASC 958-605-25-16</p> <p>Contributed services: ASC 958-605-50-1).</p> <p>Examples of contributed services can be found in Examples 7-11 of ASC 958-605-55 (paragraphs 52-68).</p>			<p>IFRS for SMEs, (section 2.27 - recognition of assets, liabilities, income and expenses).</p> <p>IPSAS 23; <i>Revenue from non-exchange transactions (taxes and transactions)</i> paragraphs 98-103</p>