



Practitioner Advisory Group Issue Paper

AGENDA ITEM: PAGFG04-01

14 November 2024 – Online

Revenue

Summary	This paper updates the PAG on the discussions in respect of revenue that took place at the TAG meeting in September 2024.
Purpose/Objective of the paper	The paper seeks PAG members' views on the most significant areas where changes to the requirements in ED 2 are proposed as a result of the discussions at the TAG meeting.
Other supporting items	September 2024 paper PAGFG03-01 Revenue and Inventories September 2024 paper TAGFG03-03 Revenue September 2024 paper TAGFG03-04 Inventories
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Actions for this meeting	Advise on the Secretariat's proposals in respect of: <ul style="list-style-type: none">• Grant revenue model• Donations in-kind:<ul style="list-style-type: none">○ Mission critical services in-kind○ Guidance on low value items○ Disclosures• Time constraints

Practitioner Advisory Group

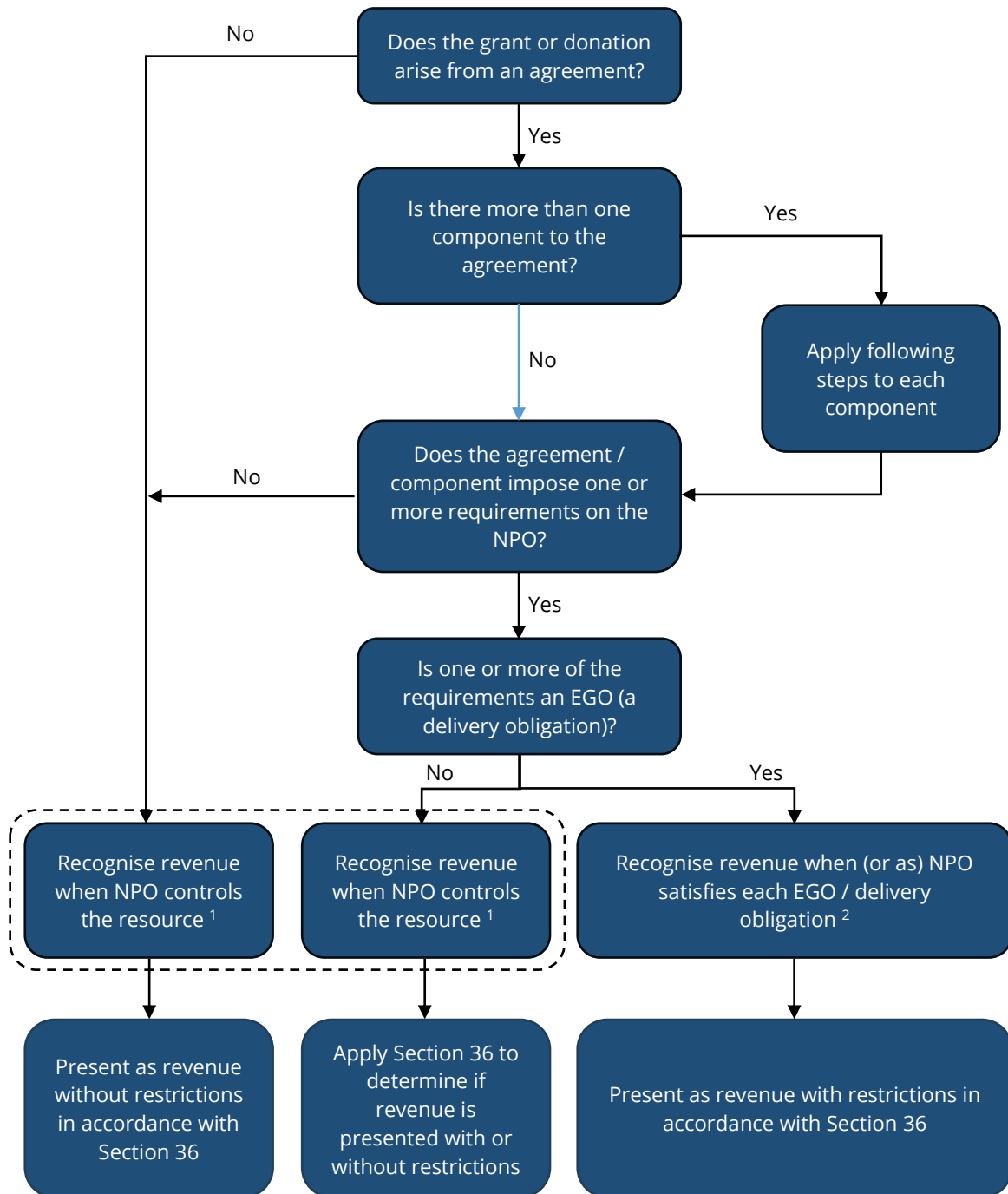
Revenue

1. Introduction

- 1.1 At its September 2024 meeting, the PAG considered the Secretariat's proposals for finalising Section 23 *Revenue* of INPAG. The proposals, along with the PAG's comments, were considered by the TAG later in September.
- 1.2 The Secretariat is currently revising its proposals for finalising Section 23 to take account of the discussions at these two meetings. This paper provides feedback to the PAG of the TAG's discussions and decisions taken to date, and seeks the PAG's feedback on the Secretariat's latest proposals. The proposals will be presented to the TAG at its December 2024 meeting.

2. Grant model

- 2.1 The grant model presented by the Secretariat in September proposed changing the focus from the grant arrangement to any obligations contained within the grant agreement.
- 2.2 This proposal was generally supported by both PAG members and TAG members. TAG members did not, however, support the introduction of the term "enforceable grant component" as members generally considered that the focus on obligations could be achieved without the need to introduce a new defined term.
- 2.3 TAG members also considered that the grant model diagram needed to be further developed into a decision tree. Additional factors that TAG members considered needed to be incorporated into the diagram included:
 - Greater emphasis on whether there is a grant agreement.
 - Earlier consideration of whether agreements include a single requirement.
 - Greater clarity that not all requirements will be present obligations.
- 2.4 The following diagram sets out the revised decision tree for grant revenue. Members are asked to note that the footnotes may be replaced with cross references to the relevant paragraphs in INPAG and the relevant definitions.



Footnotes:

¹ An NPO will control a resource when it has taken ownership of the resource or is legally entitled to the resource. An NPO will need to consider whether the substance of any requirements (for example, a match funding requirement) affect its entitlement to a resource.

The same recognition and measurement model is used for all transactions within the dotted box.

² An NPO will need to consider whether the substance of any requirements (for example, a requirement to obtain regulatory approval) affect the timing of when the NPO satisfies its delivery obligation.

- 2.5 The revised decision tree reflects the different types of funding arrangements that an NPO may have, not just the accounting models. While a single accounting model is used to account for any revenue that does not arise from a present obligation, this revenue may arise in one of two ways:
- Donations received outside of a grant agreement, with no restrictions
 - Grants that include restrictions such as a purpose or geographical limitation on the use of the grant, but do not create a present obligation (EGO).
- 2.6 While the recognition and measurement model for these two sources of revenue is the same, NPOs are likely to view them differently. The existence of a restriction in the case of grants means that consideration needs to be given as to whether these grants are presented as revenue with or without restrictions.
- 2.7 The diagram currently uses two terms for an NPO's present obligation – enforceable grant obligation (EGO) and delivery obligation. EGO is the term that was used in Exposure Draft (ED) 2, while delivery obligation has been suggested as an alternative term that may be more readily understood by NPOs.
- 2.8 We are seeking PAG members' views on these two terms. As EGO was used in ED 2, and ED2 respondents did not raise concern about the name of the term, there are benefits in retaining it. However, if there is a general view that delivery obligation would be better understood, further consideration can be given to the use of this term. Only one term will be used in the final version of INPAG.

Question 1: Do PAG members have any comments on the revised grant model and decision tree?

Question 2: Do PAG members consider that delivery obligation will be more readily understood by NPOs than EGO? If so, could this justify a change in the term used in INPAG?

3. Donations in-kind

- 3.1 The TAG considered a number of issues raised by stakeholders in relation to donations of gifts in-kind and services in-kind. These are discussed below.

Permitted exceptions

- 3.2 ED 2 permitted a number of exceptions to the general recognition and measurement requirements where an NPO receives gifts or services in-kind:
- NPOs may elect to recognise revenue from low-value assets donated for resale or to be transferred to another party in the course of the NPO's fundraising activities, when the items are sold or the fundraising activity has taken place. Items for resale would be measured at the amount of the consideration received or receivable.
 - NPOs may recognise revenue from items donated for distribution to service recipients or for an NPO's own use when the items are distributed or used. These items would be measured at the fair value of the items at the time they are distributed or used.
 - NPOs need not recognise revenue in respect of any services in-kind, except those that are critical to the NPO's mission. Additional disclosures are required where an NPO is unable to recognise mission critical services in-kind the services cannot be reliably measured.
- 3.3 Respondents to ED 2 generally supported these exceptions, although some respondents did suggest alternatives for some of the exceptions. Some suggestions would have extended the scope of the exceptions, whereas other suggestions would have limited the scope of the exceptions.
- 3.4 A small number of TAG members supported some of the suggestions from respondents. However, given the majority support for the proposals in ED 2 from respondents, and the varying views of those who disagreed, the TAG concluded that there was no basis for deviating from the proposals in ED 2. Consequently, the proposals in ED 2 will be retained in the final version of INPAG.
- 3.5 The TAG noted that it will be important to review how the exceptions are working in practice once INPAG has been issued and adopted by a range of NPOs and jurisdictions.

Mission-critical services in-kind

- 3.6 A number of respondents to ED 2 requested further guidance on what services should be considered mission critical, and were therefore required to be recognised in the financial statements.

- 3.7 These respondents questioned whether such services included services such as fund raising (as the NPO would not be able to function without receiving funds). Similarly, some respondents questioned whether some administrative functions would be considered mission critical, for example where they contributed to the NPO satisfying legal requirements such as filing accounts.
- 3.8 TAG members did not consider the examples provided should be classed as mission critical. Instead, the TAG agreed that mission critical should be defined narrowly, only covering services that were directly involved in the delivery of the NPO's mission, and where the mission could not be achieved without the receipt of the services in-kind.
- 3.9 TAG members were however, concerned about the consistency of information and transparency of services in-kind provided. TAG members were of the view that disclosure requirements should be strengthened (see paragraph 3.19 below).
- 3.10 The TAG agreed to include additional guidance and Illustrative Examples to clarify this approach. This approach is likely to minimise the amount of services in-kind that an NPO is required to recognise. Enhanced disclosures in respect of revenue that is not recognised by an NPO are intended to ensure that users of the financial statements still have access to useful information about the services in-kind that the NPO has received.

Question 3: Do PAG members support the proposed approach to mission critical services in-kind?

Guidance on low value items

- 3.11 At the PAG's September 2024 meeting, the Secretariat presented proposals for the guidance on what constitutes a low value item when applying the permitted exceptions for gifts and services in-kind. The Secretariat explored the use of an absolute value as the threshold for a low value item, with an indicative amount being provided in the Basis for Conclusions. The Secretariat noted that regulators may wish to provide an alternative value in their jurisdiction
- 3.12 A significant number of PAG members expressed concerns over these proposals. While the intention of simplifying the requirements for NPOs was understood, there were concerns that a single value would not be workable

given the range of NPOs that might be applying INPAG, and the wide variety of jurisdictions in which they operate.

- 3.13 Some PAG members considered that the proposals might be workable if a range of values was given, along with additional guidance on how this could be applied.
- 3.14 Some other PAG members did not consider this would be sufficient. These members considered that any guidance on what constitutes a low value item would need to be based on materiality.
- 3.15 These concerns were presented to the TAG when it considered the proposals (modified to include a range of values). TAG members shared the PAG members' concerns, and the consensus at the TAG meeting was that the guidance should be based on materiality alone. TAG members also recommended that in considering materiality, it should be made clear that no detailed assessment is required in respect of items that are clearly trivial.

Question 4: Do PAG members have any advice on guidance to assist NPOs in applying materiality for low value items , including a reference to items that are clearly trivial?

Disclosures

- 3.16 The TAG considered the responses to ED 2 in respect of the disclosure requirements covering donations in-kind. Some respondents identified areas where they considered the requirements could be improved to provide more useful information to users of the financial statements. The two main areas where changes are proposed are discussed below.

Detailed analysis of form of revenue (cash or in-kind)

- 3.17 The first issue related to the breakdown of revenue into amounts received (or receivable) in cash, gifts in-kind and services in-kind. ED 2 required this breakdown for other funding arrangement (OFAs) but not for Enforceable Grant Arrangements (EGAs).
- 3.18 TAG members agreed that, while EGAs are less likely to involve the receipt of non-cash items, there may be cases where this occurs. In such cases, an analysis of the forms of revenue would be helpful to users of the financial statements. The Secretariat is therefore proposing to amend the disclosure requirements to specify that revenue from both EGAs and OFA should be

analysed into amounts received in cash, in goods (including any long term assets) and in services.

Revenue from donations in-kind not recognised by an NPO

- 3.19 The second issue relates to the disclosures required where an NPO does not recognise revenue, either because it is applying one or more permitted exceptions or because it is unable to measure the revenue reliably.
- 3.20 When an NPO receives services in-kind that are critical to the NPO's mission but does not recognise those services in-kind because it cannot reliably measure their value, ED 2 requires NPOs to disclose:
- a description of the services received;
 - an explanation of why the services are critical to the NPO's mission; and
 - any quantitative information available to the NPO – for example, the number of hours or days of each type of service in-kind received.
- 3.21 ED 2 includes more limited disclosures in respect of other goods or services not recognised because they cannot be reliably measured as part of inventories disclosures. In this case, a description of the items not recognised is required, but no information about the items significance to the NPO is required, and there is no encouragement to disclose any quantitative information available to the NPO.
- 3.22 Some respondents considered that this difference in treatment is unhelpful, and that the more detailed disclosures should be required in all cases where an NPO does not recognise revenue that it is unable to measure reliably. In particular, these respondents considered that there should be an encouragement (or a requirement) to disclose quantitative information.
- 3.23 Where an NPO elects to use a permitted exception, ED 2 requires the NPO to:
- disclose which permitted exception or exceptions have been used,
 - provide a description of the items for which the exception or exceptions have been used, and
 - provide an explanation of why the NPO has elected to use the permitted exception(s).
- 3.24 Some respondents considered that this disclosure should also be consistent with the disclosure in respect of mission-critical services in-kind that cannot



be recognised because the items cannot be reliably measured. This would include disclosing the significance of the items to the NPO, and encouragement to disclose quantitative information.

- 3.25 TAG members generally agreed with these concerns, and considered that the more detailed requirements should be applied to all donations in-kind that an NPO does not recognise, whether because a permitted exception is used or because the items cannot be measured reliably.
- 3.26 Consequently, the Secretariat is proposing to revise the disclosure requirements to ensure they are consistent. NPOs will be required to:
- provide a description of the items not recognised and their significance to the NPO;
 - provide an explanation as to why they have not been recognised (that is, why the NPO has elected to use an exception or why it is unable to reliably measure the items);
 - consider what other information (including any quantitative information the NPO might have) will be useful to users of the financial statements.
- 3.27 The TAG agreed that the wording “encouraged” should be strengthened. NPOs will be required to consider whether they can provide useful quantitative information. However, the guidance will clarify that any such quantitative information is intended to be information that the NPO already holds for its own purposes – there is no intention that an NPO should implement new systems or processes to capture additional information solely to provide this disclosure.
- 3.28 The Secretariat will also consider whether all these disclosure are relevant to donations of low value items, given that these will not be material following the decision to base low value on materiality.

Encouragement to disclose the best estimate of the value of donations in-kind received but not recognised

- 3.29 ED 2 also encourages (but not require) NPOs to disclose its best estimate of the value of any gifts in-kind or services in-kind that it has received but not recognised as revenue.
- 3.30 Some TAG members considered that this was inappropriate, as the main reason for the inclusion of the proposed exceptions in INPAG is that the cost of valuing these items is likely to exceed the benefits to the users of the

financial statements. Encouraging the disclosure of best estimates could therefore be counterproductive.

- 3.31 TAG members agreed, and the Secretariat is therefore proposing to delete this paragraph in INPAG.

Question 5: Do PAG members consider that it would be helpful to users of the financial statements to analyse both revenue from OFAs and EGAs by the form of revenue (cash, goods or services)?

Question 6: Do PAG members have any comments on the proposed disclosures in respect of items received by an NPO but not recognised as revenue?

Question 7: Do PAG members support the proposal to delete the encouragement to disclose the best estimate of the value of donations in-kind received but not recognised?

4. Time constraints

- 4.1 At the September 2024 PAG meeting, some members suggested that INPAG would need to be clearer about the treatment for time constraints. The example given was of a grant given to an NPO towards its general running expenses. Although the grant is given in the current year, the donor specifies that the grant can only be used to finance eligible expenditure incurred in the following year.
- 4.2 The TAG considered this scenario at its meeting later in September. TAG members generally agreed with the Secretariat's proposal that the accounting treatment should follow the general principles in Section 23, and that the treatment would therefore depend on the specific circumstances. TAG members were clear that the scenario did not justify any new exemption from the general recognition and measurement principles.
- 4.3 To assist users of INPAG, the Secretariat has developed an Illustrative Example showing the factors that should be considered in determining whether the grant should be recognised in the current year (when it is received) or the following year (when expenditure may be financed).
- 4.4 The draft Illustrative Example is included in Annex A.



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Question 8: Do PAG members have any comments on the proposed approach and the draft Illustrative Example?

November 2024

Annex A – Draft Illustrative Example on timing constraints

Example x – Grant with time constraint

Case A

Donor A is a philanthropist organisation, and provides NPO B with an annual grant towards its general running costs. Donor A transfers the whole amount of the grant in December 20x1. NPO B's financial reporting period runs from 1 January to 31 December.

The terms of the grant provided by Donor A specify that eligible expenditure must be incurred during the 20x2 financial reporting period. The grant does not specify how the funds are to be used, and no further terms are included in the grant agreement. Grant amounts would only be refundable in the unlikely event that NPO B fails to comply with the terms of the grant (ie its general running costs in the year are lower than the grant).

NPO B considers when it should recognise the revenue from the grant.

Analysis

As the grant does not specify how the funds are to be used, no enforceable grant obligation exists, and the grant should be accounted for when the NPO B controls the resources.

Where there is no enforceable grant obligation, revenue is usually recognised as funds are received (or become receivable, if this is earlier). This would require revenue to be recognised in 20x1 even though the grant could not be used until the following reporting period.

NPO B considers whether there are other factors that affect the timing of revenue recognition, as follows:

- **Does NPO B control the cash prior to 1 January 20x2?** NPO B has received the cash, and there are no practical limits to its ability to use the cash from the date of receipt. Donor A has not included any terms in the grant agreement that give it control of the cash prior to 1 January 20x2. NPO B therefore controls the cash.
- **Is NPO B acting as an agent for Donor A prior to 1 January 20x2?** Donor A has not specified in the grant agreement that NPO B is acting as its agent in holding the cash prior to 1 January 20x2. Donor A has no involvement in the use of the

funds; NPO B is free to use the funds as it determines. In the absence of any specific terms in the grant agreement, NPO B is therefore acting as a principal.

- **Does NPO B have a present obligation in respect of the grant prior to 1 January 20x2?** Whether NPO B has a present obligation will depend on the terms of the grant agreement. As noted above, the grant does not include any enforceable grant obligations. Unless the grant agreement contains any other conditions, for example a requirement to return funds to Donor A if the cash is used prior to 1 January 20x2, NPO B will not have a present obligation in respect of the grant prior to 1 January 20x2. No such requirement exists in this grant agreement, and NPO B therefore does not have a present obligation in respect of the grant received.

Conclusion

NPO B has received the grant in the 20x1 reporting period, controls the cash, is acting as a principal and has no present obligation in respect of the grant. NPO B should recognise grant revenue in the 20x1 reporting period. NPO B should disclose the nature of the grant and that constraints mean that the grant can only be used to fund eligible expenditure incurred in the 20x2 reporting period.

Case B

Donor A is a philanthropist organisation, and provides NPO B with an annual grant towards its vaccination program. Donor A transfers the whole amount of the grant in December 20x1. NPO B's financial reporting period runs from 1 January to 31 December.

The terms of the grant provided by Donor A specify that eligible expenditure must be used to deliver 10,000 vaccines during the 20x2 financial reporting period.

NPO B considers when it should recognise the revenue from the grant.

Analysis

NPO B has an enforceable grant obligation to deliver 10,000 vaccines during 20x2. NPO B therefore recognises revenue as or when the enforceable grant obligation is satisfied.

Conclusion

The terms of the grant mean that only vaccines delivered in 20x2 will satisfy the enforceable grant obligation. NPO B therefore recognises cash and an enforceable grant liability when it receives the cash. NPO B recognises revenue, and derecognises the enforceable grant liability as (or when) it satisfies the grant obligation, which will occur in 20x2.

NPO B will need to determine whether it recognises revenue at a point in time or over time.

- NPO B will recognise revenue at a point in time if the grant agreement requires it to deliver all 10,000 vaccines to be entitled to the grant. In this case, NPO B would recognise revenue once all the vaccines have been delivered,
- NPO B will recognise revenue over time if the grant agreement entitles NPO B to the grant in proportion to the number of vaccines delivered. In this case, NPO B would recognise revenue throughout 20x2 as it delivers the vaccine.