



Technical Advisory Group Issue Paper

AGENDA ITEM: PAGFG03-03

26-27 September 2024 – Hybrid meeting

Revenue

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| Summary | This paper summarises the key issues raised in the responses to the proposals for accounting for revenue, along with the Secretariat's proposals for responding to these responses in finalising the revenue section of INPAG. |
| Purpose/Objective of the paper | To allow TAG members to provide advice on the way forward with the finalisation of the requirements for accounting for revenue. |
| Other supporting items | Agenda Item TAGFG02-01 Common grant model for revenue and grant expenses Agenda Item TAGFG03-04 Inventories (elsewhere on this Agenda) |
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| Actions for this meeting | Advise on: <ul style="list-style-type: none">• Whether the TAG supports the proposals in respect of the grant model, following the developments that have taken place since the last TAG meeting• Whether the TAG supports the Secretariat's proposals for finalising Section 23 as set out in the paper. |

Technical Advisory Group

Revenue

1. Introduction

- 1.1 Section 23 of INPAG, included in Exposure Draft (ED) 2, includes the requirements for accounting for revenue. Part I of Section 23 covers revenue from grants and donations, while Part II covers revenue from contracts with customers.
- 1.2 Revenue from grants and donations was a priority area for the IFR4NPO project, and Part I of Section 23 has been developed with NPOs' specific circumstances in mind. Revenue from contracts with customers was not a priority area, and Part II of Section 23 has not been reviewed for NPO specific issues.
- 1.3 This paper summarises the responses to the Specific Matters for Comment (SMCs) included in ED 2 in respect of revenue, and proposes the way forward for finalising Section 23. This paper also refers to the responses to the SMCs on inventories (Section 13) where there is an overlap between the two sections, for example donated goods, and where developments therefore need to be consistent.
- 1.4 The detailed analysis of the responses to the SMCs in respect of revenue can be found in [Appendix A](#).
- 1.5 Part II of Section 23 is based on the text in the Exposure Draft of the Third Edition of the *IFRS for SMEs* Accounting Standard. Part I also draws on this text, suitably adapted to grants and donations.
- 1.6 Following responses to its Exposure Draft, the IASB is reviewing the text on revenue with a view to simplifying the language. Any amendments made by the IASB are likely to be relevant to Part II and may also have consequences for Part I. Consequently, this paper does not propose any drafting changes at this stage. Amended drafting of Section 23 will be brought to a later TAG meeting once the Secretariat have been able to review the revised text in the Third Edition of the *IFRS for SMEs* Accounting Standard.

2. Grant Model

- 2.1 The accounting model for grant revenue is consistent with the model for grant expenses. SMC 4(a) asked for respondents' views on the grant model and the terminology adopted in INPAG:

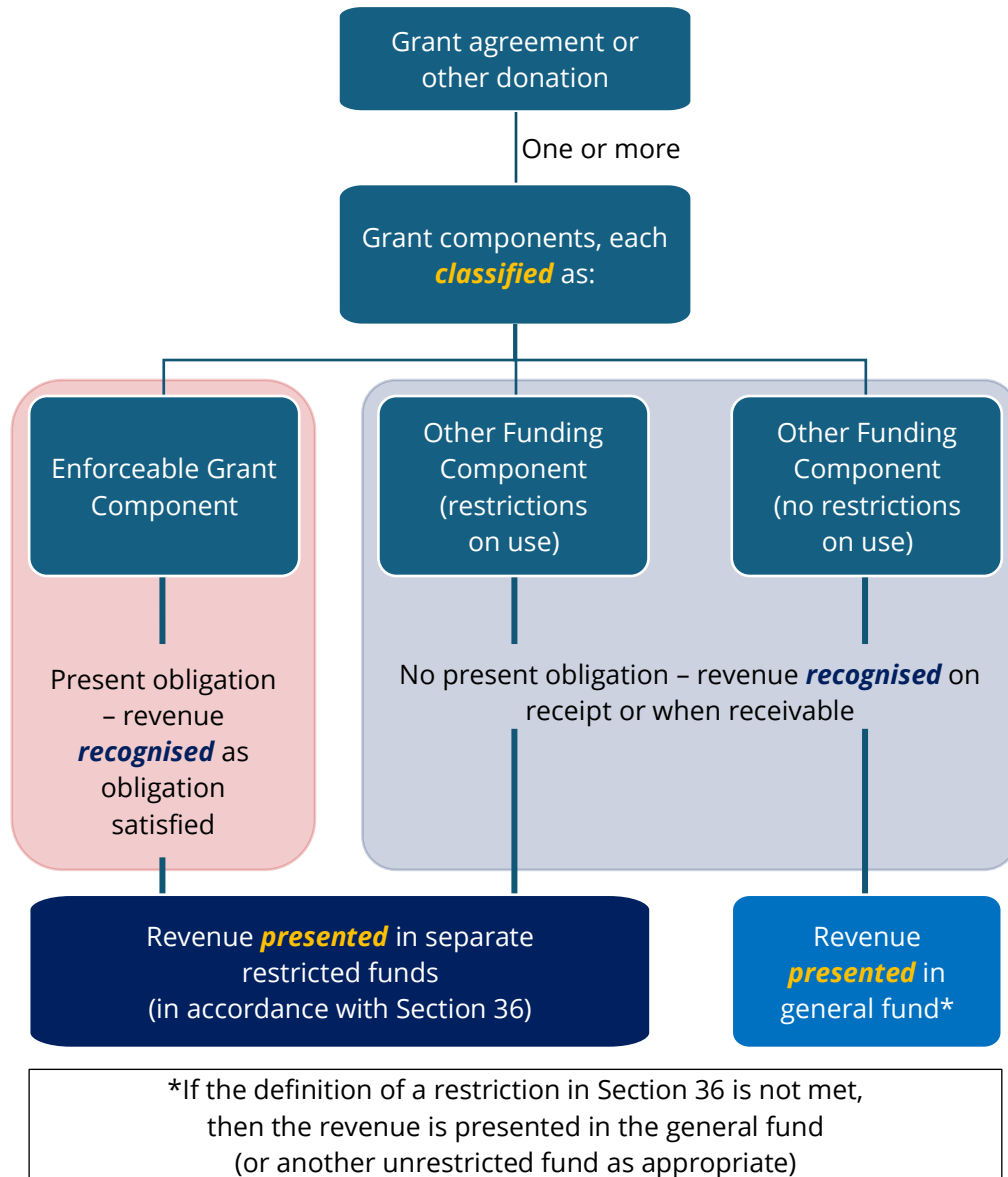


Section 23 Part 1 and Section 24 Part 1 introduce new terminology relating to grant arrangements. Do you agree with the terms enforceable grant arrangement and enforceable grant obligations and their definitions? If not, what alternative terms would you propose to achieve the same meaning? What are the practical or other considerations arising from these definitions, if any?

- 2.2 Respondents generally supported the grant model, with almost three quarters of respondents supporting the model. Fewer than one in five respondents disagreed with the model.
- 2.3 A further question asked whether all grants could be classified as either EGAs or OFAs. Over 80% of respondents agreed that with the proposals for classification. Although this question was only asked in the grant expenses section (see the [July 24 TAG paper](#) for the detailed analysis), the responses made it clear that respondents had also considered the issue from the revenue perspective.
- 2.4 The TAG considered this common model at its meeting in July 2024, where it was of the view that the responses did not indicate a need to change the grant model for revenue, and that the terminology could be retained mostly unchanged.
- 2.5 One key issue identified (by PAG members as well as by some respondents) was that the focus should be on the substance of the obligations in the agreement rather than an arrangement. References to an Enforceable Grant Arrangement suggested to some PAG members and respondents that the same accounting treatment should be applied to a whole grant agreement.
- 2.6 This was not intended to be the case, and the Secretariat is therefore proposing to refer to Enforceable Grant Components. This is intended to highlight the fact that a single grant agreement can have components that require different accounting treatments.



- 2.7 The revised model is shown in the diagram below, which also includes the links to the fund accounting requirements in Section 36. The Secretariat intend to include this diagram in INPAG to assist preparers.



- 2.8 The revised grant model was considered by the PAG at its September 2024 meeting, and was generally well supported. Some PAG members did, however, consider that the terminology was difficult to understand for some NPOs. There was also a concern that introducing components created additional complexity. The Secretariat's view is that these changes result in an accounting requirement that is no more complex that was originally proposed. The proposed changes are giving clarity to the

requirements. The Secretariat also notes that such complexities predominantly arise when a grant agreement is complex. Given the TAG's view at its July 2024 meeting that the terminology should not be substantially changed, no changes are proposed in response to the PAG members' comments.

Question 1: Do TAG members agree with the Secretariat's proposal to change the focus of the grant model to Enforceable Grant Components?

Question 2: Do TAG members have any other comments on the diagram?

3. Responses to SMCs¹

- 3.1 The rest of this paper considers the responses to the remaining SMCs on revenue and proposes a way forward to address any issues identified by respondents.

4. Structure of Section 23

- 4.1 SMC 4(b) asked respondents for their views on the structure of the revenue section:
- Do you agree with the structure of Section 23, with Part I focused on grants and donations, Part II focused on contracts with customers and a preface that brings together the key principles and information about how to navigate the guidance? If not, what changes would you make and why?*
- 4.2 There was strong support for the structure of Section 23, with 93% of those who responded to the SMC agreeing, and only 7% disagreeing.
- 4.3 Some respondents had concerns over the structure because both Part I and Part II use the five step model for revenue recognition. These respondents considered that having two parts to the section was not necessary. The Secretariat note that stakeholders have consistently indicated that NPOs view revenue from grants and donations as being very different to commercial revenue, and that INPAG should reflect this view. Consequently, the Secretariat do not propose combining Part I and Part II.
- 4.4 Other respondents had concerns over the complexity of the structure, which they considered arose in part from separating simpler transactions from more complex transactions.

¹ To aid the drafting of the paper, the terms Enforceable Grant Arrangement (EGA) and Other Funding Arrangement (OFA) have been retained from this point onwards where these refers to the terms used in ED 2.

- 4.5 The Secretariat notes the comments regarding complexity. The Secretariat also notes that the IASB is reviewing the text of the revenue section of the Third Edition of the *IFRS for SMEs* Accounting Standard with a view to simplifying the text. The Secretariat therefore proposes to review Section 23 in the light of any amendments made by the IASB, with a view to simplifying the Section at that point.

Question 3: Do TAG members support the approach proposed by the Secretariat in respect of the structure of Section 23?

5. Revenue is only deferred where the grant recipient has a present obligation

- 5.1 SMC 4(c) sought respondents' views on the proposal that revenue is only deferred where the grant recipient has a present obligation:

Do you agree that revenue is only deferred where the grant recipient has a present obligation in relation to the revenue received? If not, in what other circumstances could revenue be deferred and what is the conceptual basis for this proposal?

- 5.2 Respondents strongly supported this proposal, with 93% of those who responded to this question agreeing with the proposal, 5% disagreeing and the remaining 2% partially agreeing.
- 5.3 A number of issues were raised by respondents, whether they agreed with the proposal or not. These can be summarised as follows:
- One respondent suggested that revenue in respect of capital assets should be deferred and recognised as the asset is used to provide services. The Secretariat notes that INPAG specifies that the construction of an asset and its use would be separate enforceable grant obligations, and that the suggested treatment would therefore be dependent on the terms of the grant agreement.
 - One respondent suggested that deferral of revenue could arise from a constructive obligation. The Secretariat notes that constructive obligations are present obligations. However, the Secretariat considers this comment relates to enforceability, discussed in the next bullet point.
 - A number of respondents had concerns regarding the link between this question and enforceability (which the TAG discussed as part of its consideration of the grant model in July 2024). Respondents considered that some obligations would not satisfy the definition of an EGO, and would therefore be recognised on receipt. This is because the donor had an enforceable right and an obligation, but the grant recipient only had an obligation. These respondents considered that revenue should be deferred in these cases as the recipient has a present obligation, but did not consider the EGA / OFA split achieved this.

- 5.4 The Secretariat notes the comments regarding enforceability and will review the requirements to ensure the situation described is addressed.
- 5.5 The Secretariat notes that revenue would only be deferred if cash or other assets were received prior to the obligation being satisfied. Where an EGA exists, the receipt of the cash results in the extinguishment of the right and the recognition of an asset. The Secretariat agrees that in this situation the grant recipient has a present obligation. One solution would be, therefore, to clarify the application of the EGA definition to include cases where the agreement does not give the recipient an enforceable right to receive the cash, but does specify that the donor will provide the cash in advance of the recipient commencing its activities.

Question 4: Do TAG members support the Secretariat's proposals in respect of deferring revenue only when there is a present obligation?

6. Allocation of grant revenue to more than one obligation

- 6.1 SMC 4(d) sought respondents' views on the proposed methods of allocating grant revenue when a grant agreement includes more than one enforceable grant obligation:
- The revenue recognition model for enforceable grant arrangements requires that revenue is allocated where there is more than one enforceable grant obligation. Do you agree with the allocation methods identified? If not, what methods would you propose? What are the practical considerations?*
- 6.2 Respondents supported the proposals, with 90% of those who responded to this question agreeing. The remaining respondents were evenly split between those who disagreed and those who partially agreed (5% each).
- 6.3 Respondents who agreed with the proposals commented that additional guidance or examples on estimating stand-alone value would be useful to users of INPAG. The Secretariat notes that INPAG already includes Implementation Guidance on stand-alone values (see paragraphs IG23.15–IG23.23). An Illustrative Example could be added if the TAG consider this would be helpful.
- 6.4 Stand-alone values are based on cost. One respondent noted that stand-alone price (the equivalent amount for revenue from contracts with customers) can be based on outputs as well as inputs, and suggested that this might be more appropriate in some cases.
- 6.5 The Secretariat note that the decision to limit the stand-alone value to costs was taken to simplify the approach, with feedback from the sector indicating this would



be the most appropriate method in the vast majority of cases. An output method could also be permitted in INPAG. However, if this is included, the Secretariat recommends that there be a rebuttable presumption that the cost basis be used unless the NPO can demonstrate the output method is more appropriate.

- 6.6 One respondent suggested that all revenue for the construction and use of assets should be allocated to their use, with no revenue being allocated to the construction phase. The Secretariat considers that the allocation should follow the terms of the agreement, noting that in many cases the grant is only intended to cover the construction costs, with the asset then becoming a restricted asset for a period of time.
- 6.7 One respondent who disagreed with the proposal considered that allocation methods should not be mandatory, and that NPOs should be permitted to allocate revenue as they saw fit. This full response is included at [Appendix B](#).
- 6.8 The Secretariat considers that, in part, this response is referring to how revenue is allocated to the satisfaction of obligations. In either case, the Secretariat is of the view that not having mandatory requirements for the allocation of revenue would result in financial statements that do not satisfy the qualitative characteristics of comparability, relevance and faithful representation.
- 6.9 Another respondent who disagreed also raised the concerns over enforceability that were discussed under SMC 4(c), noting that having some obligations that were EGAs and some that were not could affect the allocation process.
- 6.10 One respondent who partially agreed with the proposals commented that *"In many types of donor grant contracts, there are no identifiable deliverables. Costs of programmatic outputs are budgeted under detailed budget lines and the donors accept costs based on actual spending under those lines."*
- 6.11 The Secretariat considers that, in these circumstances, the EGO would be the incurring of expenditure, and hence allocating grant revenue on this basis would be appropriate.
- 6.12 Some respondents also identified inconsistencies in the wording of Section 23. The Secretariat will review these comments when finalising the Section.
- 6.13 The Secretariat proposes to retain the current approach to allocating revenue to obligations. The TAG is asked for its views as to whether the minor amendments suggested by respondents should be included in the final version of Section 23.



- Question 5:** Do TAG members consider that an additional Illustrative Example on determining stand-alone value should be included?
- Question 6:** Do TAG members consider that NPOs should be permitted to use an output basis when allocating revenue? If so, should there be a rebuttable presumption that the cost basis is used?

7. Permitted exceptions – gifts in-kind

- 7.1 ED 2 includes permitted exceptions from the general recognition and measurement requirements where an NPO receives gifts in-kind. SMC 4(e) sought respondents' views on the permitted exceptions:

Do you agree with the permitted exceptions that allow the recognition of some gifts in-kind, either when sold, used or distributed, and that these permitted exceptions cannot be used where donations are received as part of an enforceable grant arrangement? If not, what would you propose instead and what is the rationale?

- 7.2 Respondents strongly supported the inclusion of the permitted exceptions, with 92% of those who responded to the question agreeing with the proposal and only 8% disagreeing. However, respondents did express more concerns in the responses to the inventory section, where 69% of those who responded supported the proposed permitted exceptions, while a significant minority either disagreed (13%) or partially disagreed (18%).
- 7.3 As discussed in Agenda Item 4, some respondents supported the proposed exceptions for revenue but not for inventories. As the exceptions need to apply to both revenue and inventories or none, the Secretariat is of the view that the overall level of support for the proposed exceptions is likely to lie between the two responses.
- 7.4 Some respondents suggested the permitted exceptions should also be applicable to EGAs. ED 2 did not permit this, as deferring the recognition of the items as inventory would affect the liability recognised in respect of an EGA, and would understate the NPO's obligations in respect of the EGA. Revenue from an EGA is recognised (and the liability extinguished) as obligations are satisfied. Deferring revenue recognition until donated items were sold, used or distributed would not be consistent with this approach. Consequently, the Secretariat does not support extending the permitted exceptions to EGAs.
- 7.5 Respondents to ED 2 also raised various other issues regarding the scope of individual permitted exceptions. These comments reflected respondents' differing

views as to the balance that needs to be struck between cost-benefit, practicality and faithful representation:

- Some respondents suggested that the exception for low value items donated for resale should be limited to situations when it is impracticable to estimate the value of the item at the time it is received. Others considered that all items should be recognised at the time of receipt. The Secretariat does not support these proposals for the reasons given in paragraphs 7.6 and 7.7 below.
- Some respondents noted that deferring recognition of items until they are subsequently distributed or used may not provide much benefit to NPOs. This is because it is unlikely NPOs will have additional information about the value of the inventories from that available when they were received. The Secretariat accepts this will be the case for some items. However, for other items there may be significant uncertainty as to whether the NPO will be able to use or distribute them (for example, medical supplies close to their expiry date). Deferring recognition until to the use or distribution of these items will resolve this uncertainty.
- Some respondents had concerns regarding the requirement to ultimately recognise items donated for use or distribution at fair value. They considered that this could impose a burden on NPOs, or result in items not being recognised because they could not be reliably measured. In this respect, some respondents noted that guidance on not recognising items because they cannot be reliably measured does not appear in Section 23, although it is included in supporting material. The Secretariat notes that the guidance is included in Section 13 *Inventories*, but agrees that it would be helpful to either replicate the guidance in Section 23 or provide a cross-reference to the guidance in Section 13.

- 7.6 The Secretariat accepts that the various suggestions made by respondents are valid, and in many cases will reflect what is appropriate in the respondents' jurisdictions. However, INPAG needs to be applicable internationally, and needs to take into account the capacity of NPOs in all jurisdictions. The exceptions are permissive rather than mandatory. NPOs can choose to apply the general recognition and measurement requirements where they are able, and such information will be useful to the users of the financial statements.
- 7.7 The Secretariat also notes that over 90% of respondents supported the proposals in ED 2 in respect of revenue, and only a few respondents supported each of the suggested alternatives. Consequently, the Secretariat proposes to retain the permitted exceptions as included in ED 2.
- 7.8 An NPO that makes use of a permitted exception will not be able to comply with the general recognition and measurement requirements for inventories. Section 13 addresses this by including the equivalent exceptions for NPOs that have chosen not to recognise revenue on receipt.



- 7.9 The responses to Section 13 are therefore relevant when considering the responses to this section. While many of the comments are consistent, respondents to Section 13 also considered that guidance on what constitutes a low value item is required. These comments, and the Secretariat's proposed response, are included in Agenda Item 4 that deals with the responses to Section 13.
- 7.10 In light of the responses to this SMC, the Secretariat proposes:
- To retain the permitted exceptions as included in ED 2;
 - To include additional guidance in Section 23 (either directly or by way of a cross-reference to Section 13) addressing situations where donated items cannot be recognised because they cannot be reliably measured.
 - To address the request for guidance on what constitutes a low value item as set out in Agenda Item 4 that deals with the responses to Section 13.
- 7.11 The Secretariat has not commented on the appropriateness of fair value measurement for donated items for use or distribution at this point as this issue was the subject of a specific SMC (see the discussion starting at paragraph 9.1).

Question 7: Do TAG members agree with the Secretariat's proposals in respect of the permitted exceptions for gifts in-kind?

8. Services in-kind

- 8.1 ED 2 also included exceptions to the general recognition and measurement requirements for some services in-kind. SMC 4(f) sought respondents' view on services in-kind:
- Do you agree that services in-kind are not required to be recognised unless they are mission critical? If not, on what basis should services in-kind be recognised and what is the rationale?*
- 8.2 Respondents generally supported the proposals, but there was a greater level of disagreement than for gifts in-kind. Of those that responded to the question, 75% of respondents agreed with the proposals, 15% disagreed and 10% partially agreed,
- 8.3 Respondents who agreed with the proposals nevertheless expressed some concerns. In particular, there were concerns about whether NPOs could reliably measure the value of services provided. Respondents also commented that "critical" could be subjective and might be difficult for NPOs to apply.
- 8.4 Respondents who did not agree with the proposals had differing views on when an exception to the recognition of donated services should be permitted. Some considered all donated services should be recognised. Some respondents would



permit an exception for general volunteer time only, while other respondents would require the recognition of any donated services that the NPO would otherwise have purchased. Some respondents considered that volunteer time should never be recognised because of the difficulties with determining a reliable measurement of the services received.

- 8.5 There was also a range of views on whether donations of professional services should be recognised. One respondent commented that any services received from institutional donors should always be recognised.
- 8.6 The Secretariat notes that the differing views expressed by respondents are the same as those expressed in response to the Consultation Paper, and by both some TAG and PAG members during the development of ED 2.
- 8.7 The Secretariat recognises that the decision as to which services in-kind should be included in a permitted exception is a question of balancing cost-benefit, practicality for NPOs and the need for financial statements that faithfully represent the NPO's financial position and financial performance. The differing views expressed reflect differing views as to where that balance should lie.
- 8.8 As the majority of respondents supported the proposals in ED 2, and given the fact that there is not a consistent view amongst those who do not support those proposals, the Secretariat recommends that the proposed exception should be retained. The Secretariat also notes that the exemptions are permissive and that NPOs can recognise all or some services in-kind that are not mission critical. The Secretariat is of the view that the responses do not provide a sufficient basis for moving away from the proposals in ED 2.

Question 8: Do TAG members agree with the Secretariat's proposal to retain the permitted exception for services in-kind included in ED 2?

9. Fair value

- 9.1 ED 2 required an NPO to recognise donations in-kind at fair value. SMC 4(g) sought respondents' views on this proposal:

Do you agree that donations in-kind (both gifts in-kind and services in-kind) should be measured at fair value? If not, what would you propose instead?

- 9.2 Respondents generally supported the proposal, with 88% of those who responded to the question agreeing, and 12% disagreeing. The Secretariat notes that there was a higher level of support for using fair value in the responses to the revenue section

than in the responses to the inventories section (where agreement was 80% of those who responded to the question).

- 9.3 Respondents who disagreed mainly did so on cost-benefit grounds, with some respondents suggesting alternative measurement options. These included:
- Measuring items at a nominal amount (one currency unit, for example US \$1). The Secretariat does not consider a nominal amount is appropriate when inventories are required to be recognised.
 - Permitting the cost to the donor, and insurance valuation or reasonable estimate to be used as fair value in the absence of an active market. The Secretariat notes that guidance on fair value is included in ED 3 and proposes to review these comments alongside the responses to ED 3.
 - One respondent proposed that services and facilities that would otherwise have been purchased by the NPO should be measured at the value to the NPO, with other donated items being measured at fair value. The Secretariat notes that INPAG has not yet considered value to the entity as a measurement basis. The Secretariat also notes that this option would fit better with an approach to services in-kind that recognised only those services in-kind that the NPO would otherwise purchase (as proposed by this respondent).
- 9.4 The Secretariat is not proposing any amendments to the requirement to measure revenue from donated items at fair value at this stage. Depending on the responses to ED 3, this issue may need to be revisited at a later date.

Question 9: Do TAG members agree that no changes to the requirement to measure revenue from donated items at fair value should be made at this stage, pending a review of the responses to ED 3?

10. Administrative tasks

- 10.1 SMC 4(h) sought respondents' views as to whether administrative tasks could be enforceable obligations:

Do you agree that administrative tasks are generally not separate individually enforceable obligations, but a means to identify or report on resources in an enforceable grant arrangement? If not, provide examples of where administrative tasks are an enforceable obligation.

- 10.2 Respondents generally supported the proposal that administrative tasks are not separate enforceable obligations (with 83% of those who responded to this question agreeing, 5% disagreeing and 12% neither agreeing nor disagreeing).



- 10.3 Respondents who supported the proposal noted that in some cases there may be an overlap between administrative tasks and those related to an enforceable obligation. Examples provided included:
- Research grants with a requirement to obtain a patent, where the administration associated with submitting the patent application would be part of the enforceable obligation.
 - Grants to develop procedures or implement new systems or processes where activities such as preparing financial statements in line with new requirements were part of the process of implementing the procedures or systems.
- 10.4 Some respondents who did not agree with the proposals considered that under some grant arrangements, failure to provide monitoring reports or similar could result in future grant receipts being lost, and therefore considered these tasks to be separate obligations.
- 10.5 The Secretariat notes that the reason for identifying enforceable obligations is to identify units of account when allocating the grant received (or receivable), so that revenue can be recognised as the obligations are satisfied.
- 10.6 The Secretariat is not convinced that any revenue would be allocated to monitoring reports, and therefore does not consider that these purely administrative tasks would meet the definition of an enforceable obligation.
- 10.7 The Secretariat accepts, however, that some tasks with administrative components, such as applying for a patent, could form part of an enforceable obligation. The Secretariat proposes including additional guidance or examples on this issue when finalising Section 23.

Question 10: Do TAG members agree that additional guidance or examples regarding administrative activities that might form part of an enforceable obligation would be helpful?

11. Disclosure of grant revenue.

- 11.1 SMC 4(i) sought respondents' views on the proposed disclosure requirements:
- Do the proposals for disclosure of grant revenue provide an appropriate level of transparency? If not, what would you propose and what is the rationale for your proposal?*
- 11.2 Respondents supported the proposed disclosure requirements, with 92% agreeing, and only 5% disagreeing, with the proposals.



- 11.3 Both respondents who disagreed with the proposed disclosures objected to the fact that *"An NPO is encouraged (but not required) to disclose its best estimate of the value of any gifts in-kind or services in-kind that it has received but not recognized as revenue."* These respondents considered that this disclosure should be mandatory. Another respondent also favoured mandatory disclosure, noting that there have been cases where services in-kind represented forced labour.
- 11.4 By contrast, one respondent who supported the proposed disclosures commented that a narrative disclosure of the type of items received and their quantum rather than a financial value would be more useful for users of the financial statements and would encourage disclosure. This respondent considered that the costs of estimating fair value would deter NPOs from making this disclosure.
- 11.5 The Secretariat notes that this type of narrative disclosure is already required for services in-kind which are critical to an NPO's mission but are not recognised because they cannot be reliably measured. (see paragraph G23.63). The Secretariat considers that extending these narrative disclosures may be useful to users, but recognises the potential cost.
- 11.6 Further suggestions from respondents included:
- The separate disclosure of revenue received as cash, as gifts in-kind and as services in-kind is currently only required for OFAs; this should be extended to EGAs.
 - Disclosure in respect of government assistance that is not government grants should be considered, in line with the requirements in Section 24 of the *IFRS for SMEs Accounting Standard*. The Secretariat notes that government assistance such as free technical or marketing advice is likely to meet the definition of services in-kind. Loans at nil or low interest rates would fall within the financial instruments section.
 - NPO should disclose if the original plan of revenue recognition for multi-years grants is still in place. The Secretariat notes that disclosures about EGAs would provide this information, at least to some extent. As revenue from OFAs would generally be recognised on receipt, information about multi-year grants is likely to relate to changes in the expected receipts.
- 11.7 The TAG is asked for its views on whether any additional disclosure requirements are required in the finalisation of Section 23.



Question 11: Do TAG members consider it would be appropriate to extend the current narrative disclosures relating to some services in-kind (that are not recognised because they cannot be reliably measured) to all services in-kind?

Question 12: Do TAG members consider any additional disclosures are required to address the concerns raised by respondents?

12. Use of Part II of Section 23 for more complex grant arrangements

- 12.1 SMC 4(j) sought respondents views on the approach taken in ED 2 of referring users of INPAG to Part II of Section 23 for more complex requirements, with appropriate guidance on applying Part II provided:

Part I is written for simpler grant arrangements and Part II includes a paragraph for simpler contracts with customers. For more complex grant arrangements, additional guidance is provided about how to apply Part II in the NPO context. Do these proposals successfully remove duplication, help understandability and the ability to implement? If not, what would you change and why?

- 12.2 While respondents supported the approach, the level of support was lower than for most of the other proposals (with 81% of those who responded to the question agreeing and 14% disagreeing).
- 12.3 Some respondents linked their comments to those relating to the structure of Section 23 as a whole (SMC 4(b) , which is addressed above beginning at paragraph 4.1). In some cases, these respondents suggested combining Part I and Part II.
- 12.4 Other comments related to the complexity of the requirements. As noted in paragraph 4.5. the IASB is reviewing the text of the revenue section of the Third Edition of the *IFRS for SMEs* Accounting Standard with a view to simplifying the requirements. The Secretariat therefore proposes to consider these comments in the light of any amendments made by the IASB.
- 12.5 Other comments from respondents included:
- Guidance for auditing such grant arrangements should be developed, to help ensure consistent treatment. The Secretariat agrees that such guidance would be useful, but considers this is outside the scope of this project. INPAG has no mandate to provide audit guidance.
 - It may be possible for the donor and recipient to have different opinions on the treatment of a grant (i.e. one considers it an EGA, the other an OFA). Will this be

acceptable? The Secretariat notes that such differences can arise in a wide range of transactions. No specific provisions are required for this. The Secretariat notes that work on common grant terms is being taken forward outside of INPAG, which is expected to mitigate this potential issue.

- There is no guidance where international donors have both a HQ reporting entity and a country entity. Funds transferred between the HQ and the country entities are treated inconsistently. The Secretariat considers that the appropriate treatment will depend on two factors. Firstly, is the country entity acting as a principal or an agent. Secondly, if the country entity is acting as a principal, the appropriate treatment would depend on the terms of the agreement between the HQ and the country entities. The Secretariat considers that an Illustrative Example may help NPOs apply the requirements in INPAG appropriately.

- 12.6 With the exception of the additional Illustrative Example referred to above, the Secretariat proposes reviewing the responses to this question alongside those to the structure of Section 23 and in light of the amendments made by the IASB to the Third Edition of the *IFRS for SMEs Accounting Standard*.

Question 13: Do TAG members support the Secretariat's proposed approach?

13. Other comments

- 13.1 SMC 4(k) asked respondents for any other comments they might have:

Do you have any other comments on the proposals in Section 23, including whether the full content of the IFRS for SMEs section on revenue from contracts with customers in Part II is necessary for NPOs? If so, provide the rationale for the comment and cross reference to the relevant paragraphs.

- 13.2 Where respondents commented on the need for the full content of the revenue from contracts with customers section, a majority of respondents supported its inclusion. Those that disagreed commented that the requirements were not relevant to many NPOs, and that its inclusion gave the impression that commercial revenue was as important as grant revenue for NPOs. The Secretariat consider that revenue from contracts with customers will be important for some NPOs, and that the full content should therefore be retained.
- 13.3 Some respondents who agreed that revenue from contracts with customers should be retained considered the requirements were overly complicated and lengthy for NPOs. They suggested that the requirements should be simplified, with one respondent suggesting that INPAG refer users to the *IFRS for SMEs Accounting Standard* for the more complex commercial revenue transactions. While this

approach is being considered for share-based payments the Secretariat is of the view that NPO's may more frequently need to access guidance for more complex commercial revenue transactions.

- 13.4 The Secretariat notes that this issue may be addressed in part by the IASB's work on simplifying the requirements in the final version of the Third Edition. The Secretariat also notes that revenue from contracts with customers was not a priority topic for the IFR4NPO project, and that NPO-specific adaptations to these requirements is beyond the scope of this phase of INPAG.
- 13.5 A number of comments replicate comments made under other SMCs (particularly with regards to the difficulties "enforceability" will give NPOs in classifying grants). The Secretariat considers that these areas have been addressed elsewhere in this paper, and need not be considered again here.
- 13.6 Other comments made by respondents are summarised at [Appendix C](#), along with the Secretariat's response. The TAG is asked for its views on the Secretariat's response to these comments.

Question 14: Do TAG members support the Secretariat's responses to the comments received from respondents?

14. Additional PAG comments

- 14.1 At its September 2024 meeting, the PAG considered the Secretariat's proposals for revenue and inventories. Some PAG members raised time restrictions as an issue where they considered additional guidance is required.
- 14.2 Specifically, these members are seeking guidance on the appropriate accounting (for both the donor and recipient) where a donor provides a grant, but with a condition that the funds can only be used within a time-limited period. For example, a donor may transfer the cash in October 2024 but with a condition that the eligible expenditure must take place in 2025. How should an NPO account for this grant?
- 14.3 For the grant recipient, the Secretariat proposes to include additional guidance in Section 23, based on the general principles of revenue recognition. While a detailed analysis has yet to be carried out, the Secretariat expects that this guidance will address questions such as:
- Does the recipient control the cash?
 - Is the recipient acting as an agent of the donor until it is entitled to use the funds?
 - Does the recipient have a present obligation in respect of the cash received that would prevent it recognising revenue immediately?

Question 15: Do TAG members support the Secretariat’s proposed approach to responding to the request from PAG members?

Question 16: Do TAG members have any other comments on the approach to finalising Section 23?

15. Next steps

- 15.1 The text of Section 23 included in ED 2, including the Basis for Conclusions, will be updated to reflect TAG member feedback. It will also be updated to reflect amendments to the Third edition of the *IFRS for SMEs* Accounting Standard which is currently being finalised. It should be noted that the changes to Section 23 are likely to be significant in volume, but not necessarily in nature. While the changes to the Third edition of the *IFRS for SMEs* Accounting Standard will only directly affect Part II of Section 23 of INPAG, the Secretariat will review any simplifications to the text made by the IASB, and will adapt the text for inclusion in Part I where this is feasible.
- 15.2 The draft final text of Section 23 will be brought to a later TAG meeting, and there will be a further opportunity to comment on the draft of Section 23 when all sections of INPAG have been updated.

September 2024

Appendix A – Summary of Feedback Responses to SMCs

| | | | |
|--|----------------------------|---------------|--------------------------------------|
| SMC 4(a): Section 23 Part I and Section 24 Part 1 introduce new terminology relating to grant arrangements. Do you agree with the terms enforceable grant arrangement and enforceable grant obligations and their definitions? If not, what alternative terms would you propose to achieve the same meaning? What are the practical or other considerations arising from these definitions, if any? | Aggregate Response | Number | % of those who responded (44) |
| | Agree | 33 | 75% |
| | Disagree | 6 | 14% |
| | Neither agree nor disagree | 5 | 11% |
| | No Response | 3 | |
| | | 47 | 100% |

Please note that the figures shown here are slightly different to those included in the July 2024 papers. This is because the analysis above does not take into account the responses to the same question asked as SMC 5(a), which had some different responses,

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|---|----------------------------|---------------|--------------------------------------|
| SMC 4(b): Do you agree with the structure of Section 23, with Part I focused on grants and donations, Part II focused on contracts with customers and a preface that brings together the key principles and information about how to navigate the guidance? If not, what changes would you make and why? | Aggregate Response | Number | % of those who responded (42) |
| | Agree | 39 | 93% |
| | Disagree | 3 | 7% |
| | Neither agree nor disagree | 0 | – |
| | No Response | 5 | |
| | | 47 | 100% |

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|---|----------------------------|---------------|--------------------------------------|
| SMC 4(c): Do you agree that revenue is only deferred where the grant recipient has a present obligation in relation to the revenue received? If not, in what other circumstances could revenue be deferred and what is the conceptual basis for this proposal? | Aggregate Response | Number | % of those who responded (43) |
| | Agree | 40 | 93% |
| | Disagree | 2 | 5% |
| | Neither agree nor disagree | 1 | 2% |
| | No Response | 4 | |
| | | 47 | 100% |



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|---|----------------------------|--------|-------------------------------|
| SMC 4(d): The revenue recognition model for enforceable grant arrangements requires that revenue is allocated where there is more than one enforceable grant obligation. Do you agree with the allocation methods identified? If not, what methods would you propose? What are the practical considerations? | Aggregate Response | Number | % of those who responded (41) |
| | Agree | 37 | 90% |
| | Disagree | 2 | 5% |
| | Neither agree nor disagree | 2 | 5% |
| | No Response | 6 | |
| | | 47 | 100% |

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|---|----------------------------|---------------|--------------------------------------|
| SMC 4(e): Do you agree with the permitted exceptions that allow the recognition of some gifts in-kind, either when sold, used or distributed, and that these permitted exceptions cannot be used where donations are received as part of an enforceable grant arrangement? If not, what would you propose instead and what is the rationale? | Aggregate Response | Number | % of those who responded (39) |
| | Agree | 36 | 92% |
| | Disagree | 3 | 8% |
| | Neither agree nor disagree | 0 | – |
| | No Response | 8 | |
| | | 47 | 100% |

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|--|----------------------------|---------------|--------------------------------------|
| SMC 4(f): Do you agree that services in-kind are not required to be recognised unless they are mission critical? If not, on what basis should services in-kind be recognised and what is the rationale? | Aggregate Response | Number | % of those who responded (41) |
| | Agree | 31 | 75% |
| | Disagree | 6 | 15% |
| | Neither agree nor disagree | 4 | 10% |
| | No Response | 6 | |
| | | 47 | 100% |



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|--|----------------------------|---------------|--------------------------------------|
| SMC 4(g): Do you agree that donations in-kind (both gifts in-kind and services in-kind) should be measured at fair value? If not, what would you propose instead? | Aggregate Response | Number | % of those who responded (42) |
| | Agree | 37 | 88% |
| | Disagree | 5 | 12% |
| | Neither agree nor disagree | 0 | – |
| | No Response | 5 | |
| | | 47 | 100% |

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|--|----------------------------|---------------|--------------------------------------|
| SMC 4(h): Do you agree that administrative tasks are generally not separate individually enforceable obligations, but a means to identify or report on resources in an enforceable grant arrangement? If not, provide examples of where administrative tasks are an enforceable obligation. | Aggregate Response | Number | % of those who responded (41) |
| | Agree | 34 | 83% |
| | Disagree | 2 | 5% |
| | Neither agree nor disagree | 5 | 12% |
| | No Response | 6 | |
| | | 47 | 100% |

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|---|----------------------------|---------------|--------------------------------------|
| SMC 4(i): Do the proposals for disclosure of grant revenue provide an appropriate level of transparency? If not, what would you propose and what is the rationale for your proposal? | Aggregate Response | Number | % of those who responded (38) |
| | Agree | 35 | 92% |
| | Disagree | 2 | 5% |
| | Neither agree nor disagree | 1 | 3% |
| | No Response | 9 | |
| | | 47 | 100% |



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|--|----------------------------|---------------|--------------------------------------|
| SMC 4(j): Part I is written for simpler grant arrangements and Part II includes a paragraph for simpler contracts with customers. For more complex grant arrangements, additional guidance is provided about how to apply Part II in the NPO context. Do these proposals successfully remove duplication, help understandability and the ability to implement? If not, what would you change and why? | Aggregate Response | Number | % of those who responded (37) |
| | Agree | 30 | 81% |
| | Disagree | 5 | 14% |
| | Neither agree nor disagree | 2 | 5% |
| | No Response | 10 | |
| | | 47 | 100% |

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|---|---------------------------|---------------|-------------------|
| SMC 4(k): Do you have any other comments on the proposals in Section 23, including whether the full content of the IFRS for SMEs section on revenue from contracts with customers in Part II is necessary for NPOs? If so, provide the rationale for the comment and cross reference to the relevant paragraphs. | Aggregate Response | Number | % response |
| | Comments | 24 | 51% |
| | No comments | 23 | 49% |
| | | 47 | 100% |

Appendix B – Response in disagreement to SMC 4(d)

Strongly disagree with this being a mandatory requirement of allocations. While funds are monitored this way, this is not aligned with a financial year necessarily and flexibility in these decisions around the grant are important to nonprofits.

Grants straddle different financial years and the breathing room for nonprofits to be able to allocate or reallocate within parameters of a grant and its grant period (especially as parallel funding comes through throughout the life of the programme where multiple grants are supporting varying projects/programmes of a similar focus) and outside of the financial period, this can affect programme delivery.

Similarly, core grant funding is often more flexible and tied up in terms of their allowance in creativity in using some funding for both core and programmes and this may only be decided closer to the end of the grant term which also may not be matched with financial year end. Forcing these decisions to be allocated and outlined in a public document at a premature stage in the grant, could restrict the creativity of the nonprofit in delivering on its mandate. Nonprofits already find themselves restricted and struggle to find coverage and this presents even further restrictions in an already challenging funding environment.

In the context of South Africa, this creates an enormous administrative burden on an already strained sector with scarce financial human resources around financial reporting. This should be at the discretion of the non-profit as to what works best for them, or a gradual organic transition but not something that is mandatory. Nonprofits need to be dynamic, responsive and not static and feel this can become very restrictive with premature detailed allocations closing any wiggle room within a grant cycle. The accountability around allocation lays between the nonprofit and the contracted grantmaker and grant agreement.

We agree only if this is a high level allocation i.e. grant amount revenue recognition but not a forced line by line allocation that constrains the organisation in how it can effectively manage finances and financial sustainability and its own resilience to be able to continue to carry out its mission.

The allocation method should be voluntary.



Appendix C – Comments in response to SMC 4(k) not considered elsewhere

| Comment from respondents | Secretariat response |
|---|---|
| <p>On the proposal of the 'Economic substance of transactions – the amounts given and received are not of approximately equivalent value' - we observe that an NPO may elect not to reflect the intention to make a donation or grant where the NPO provides both a service and a grant to the recipient NPO and the difference is not material or the cost of identifying the donation or grant exceeds the likely benefit to users of the financial statements. Our concern relates to what guides on the level of materiality that the NPO should consider as it is making the election not to reflect the intention to make a donation or grant.</p> | <p>The Secretariat does not consider that materiality in this circumstance is any different to materiality elsewhere. No additional guidance is proposed.</p> |
| <p>Many preparers using the equivalent of IFRS 15 Revenue with Customers struggle with identifying whether they are principal or agent in complex arrangements. The BCs provide notes of the attempt to ensure sufficient advice was given to preparers to assess control and whether the NPO is a principal or agent in a transaction. It is important to ensure G23.16-G23.17 is sufficient.</p> <p>Further the guidance at G23.35-40 on donations-in-kind are likely to increase transparency and comparability.</p> | <p>The comment is noted.</p> |
| <p>Paragraph G23.42-G23.43 – This provides separate analysis where there is only one EGO in a grant agreement. Whilst we appreciate that this has been included to provide simplicity for users, it may be over simplified. For example, in step 2 of identifying the EGO, there is comment that detailed analysis may not be required. However, analysis should be performed to ensure that there is only one EGO included in the agreement. This step should not be skipped just because it is the NPO's understanding that only one NPO exists.</p> <p>Equally for step 3 it states no analysis is required as the transaction amount is the total amount of the grant. However, this single EGO grant agreement could still include variable consideration and so this step should still be performed to ensure the grant is recognised at an appropriate amount.</p> | <p>The Secretariat will review the wording of these paragraphs if necessary. Amendments to Section 23 in response to the IASB's simplification of the <i>IFRS for SMEs</i> Accounting Standard may resolve the issue.</p> |

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| <p>Therefore, our recommendation is that this simplified step is not included and NPOs are encouraged to go through each of the five steps for every EGA.</p> | |
| <p>Paragraph G23.50 – For an EGO to be separately accounted for, it has to meet the following conditions:</p> <ul style="list-style-type: none"> • The outcome should be capable of being separated from other outcomes, and • The resources required should be capable of being separated from other resources required by the EGA. <p>Additional clarity could be added to provide guidance on what is meant by the resources being separable. In many instances the same members of staff and assets will be used for various grant agreements and various EGOs within those agreements, even when the outcomes or activities are very clearly distinct from each other.</p> | <p>The Secretariat will consider if additional guidance is required in finalising Section 23.</p> |
| <p>Since most of the time donation or grants in-kind (G23.35) can be linked to specified activity, to use distinct services, goods or other assets internally for a specified purpose or to transfer distinct services, goods, cash or other assets to a service recipient, the revenue recognition principle for Donations in-kind may be “Revenue should be recognised in profit or loss on a systematic basis over the periods in which the entity recognises as expenses the related costs for which the grant or donation is intended to compensate.”</p> | <p>The Secretariat does not support this approach, which appears to be similar to the matching principle.</p> |
| <p>Recognition of grants or donations in profit or loss on a receipts basis is not in accordance with the accrual accounting assumption (see IAS 1 Presentation of Financial Statements) and would be acceptable only if no basis existed for allocating a grant to periods other than the one in which it was received.- para 16, IAS 20.</p> <p>The above mentioned principle could be used for all three types of grant revenue (G23.23), such as, with no constraints, EGO, OFA.</p> | <p>Recognition of revenue on receipt where the NPO has no related liability is consistent with the current conceptual frameworks. No changes are proposed.</p> |