Technical Advisory Group Issue Paper

AGENDA ITEM: TAGFG04-01
3 December 2024 – Online

Revenue

Summary	This paper updates TAG members on the finalisation of the Revenue section of INPAG, and proposes revised text to reflect decisions taken at the September 2024 meeting.
Purpose/Objective of the paper	The primary objective of this paper is to gain approval for the revised grant model, which will allow the finalisation of the remaining text. The secondary objective is to seek approval of the revised text for a number of topics where decisions have already been made and which are not affected by the finalisation of the grant model text.
Other supporting items	TAGFG03-03 Revenue
Prepared by	Paul Mason
Actions for this meeting	Advise on the Secretariat's proposals in respect of: • Revised grant model and terminology • Revised requirements for donations in-kind • Revised requirements for disclosures • Approach to revisions arising from the *IFRS for SMEs* Accounting Standard

Technical Advisory Group

Revenue

1. Introduction

1.1 At its September 2024 meeting, the TAG considered the Secretariat's proposals for finalising Section 23 *Revenue* of INPAG.

1.2 This paper sets out the issues that need to be considered by the TAG to allow the Secretariat to finalise the Part I of Section 23 *Revenue*, dealing with grants. Part II of Section 23 follows the *IFRS for SMEs* Accounting Standard with very limited amendments (mainly for terminology), and will be finalised following the publication of the Third Edition of the *IFRS for SMEs* Accounting Standard.

2. Grant model

2.1 The grant model presented by the Secretariat at the September 2024 meeting proposed changing the focus from the grant arrangement to any obligations contained within the grant agreement.

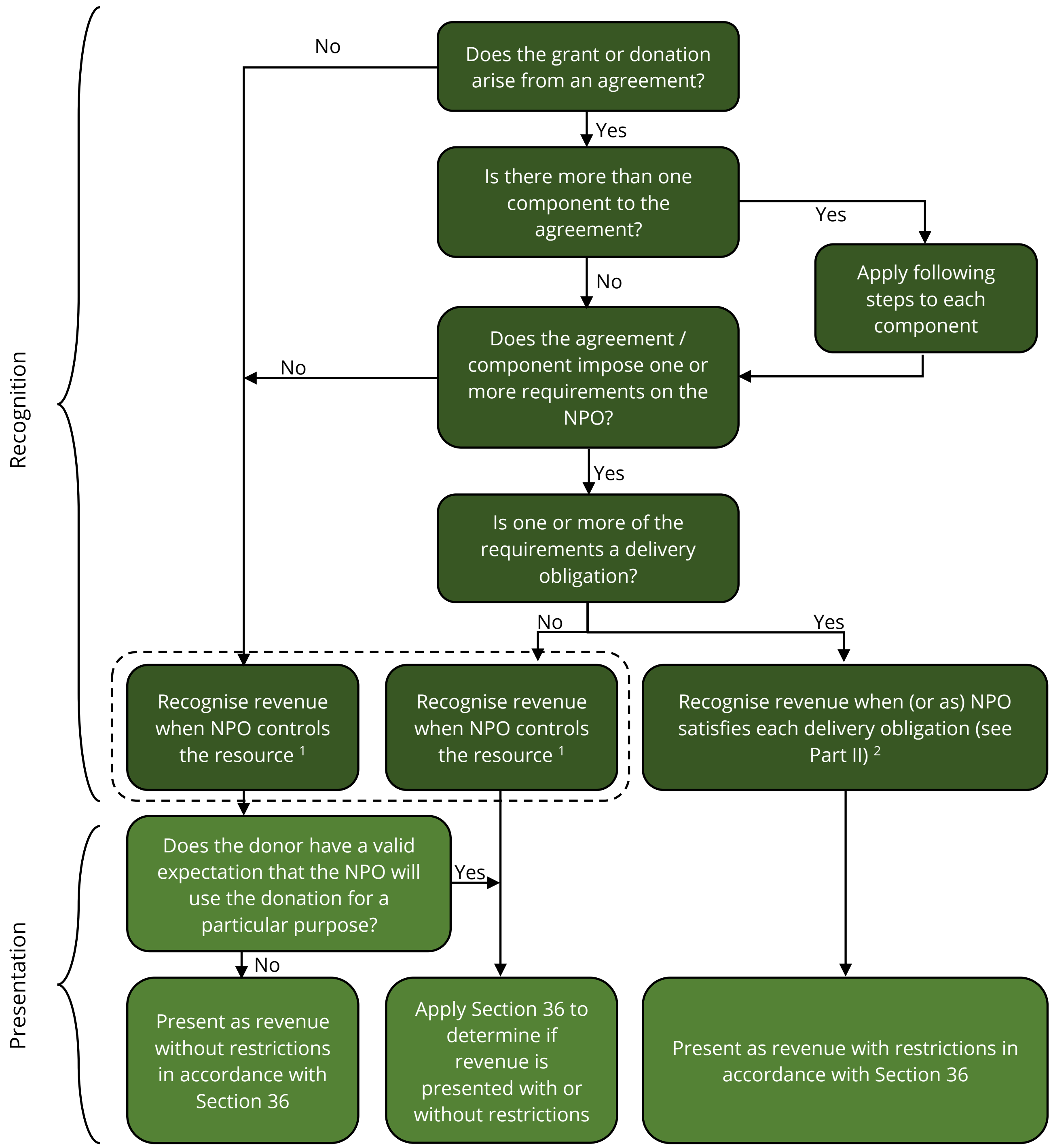
2.2 TAG members generally supported the proposal, but did not support the introduction of the term "enforceable grant component". Members generally considered that the focus on obligations could be achieved without the need to introduce a new defined term.

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.

INTERNATIONAL FINANCIAL REPORTING FOR NON PROFIT ORGANISATIONS



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 has been amended to reflect 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 these ways:

- Donations received outside of a grant agreement, with no restrictions
- Donations received outside of a grant agreement where the donors expect that the funds will be used in a particular way as a result of statements made by the NPO (e.g. fundraising campaigns).
- Grants received that do not impose an enforceable grant obligation (EGO) (using the ED 2 terminology), which may include restrictions such as a purpose or geographical limitation on the use of the grant.

2.6 While the recognition and measurement model for these sources of revenue is the same, NPOs are likely to view them differently. In addition, the possible 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 decision tree has been considered by the PAG (since when a minor change has been made to reflect comments made at that meeting) and by Focus Group 1, which also discussed the grant model. Both groups supported the decision tree.

2.8 The diagram currently uses the term delivery obligation for an NPO's present obligation. In Exposure Draft (ED) 2 the term Enforceable Grant Obligation (EGO) was used. Delivery obligation has been suggested as an alternative term that may be more readily understood by NPOs. PAG members and Focus Group 1 members generally supported the term delivery obligation, and this has therefore been used in the rest of this paper and in the redrafting of the INPAG text. Delivery obligation has the same definition as has been used to date for an enforceable grant obligation, with the reference to an EGA replace with a reference to a grant agreement:

A grant recipient's undertaking in a grant agreement to achieve a specified outcome, to carry out a 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.

2.9 We are seeking TAG members' views on the term delivery obligation. While EGO was used in ED 2, the response of PAG members and Focus Group 1 members to the term delivery obligation suggest that this term would be better understood by NPOs. The Secretariat is currently leaning towards the use of the term delivery obligation, but is seeking the views of TAG members before coming to a final decision.

Question 1:	Do TAG members have any comments on the revised grant model and decision tree?
Question 2:	Do TAG members agree that delivery obligation will be more readily understood by NPOs than EGO? If so, do they agree that this would justify a change in the term used in INPAG?

3. Revised text of grant model

3.1 The revisions to the grant model discussed above have implications for the INPAG text, particularly the change in focus from EGAs to obligations. The main changes are as follows:

- Application Guidance has been relocated to the core text in line with previous discussions at the TAG.
- The guidance on considering whether agreements need to be separated into grant with delivery obligation components, grant without delivery obligation components and commercial components has been strengthened to address respondents' concerns. Agreements may include more than one type of component.
- Terminology has been revised in line with the previous section of this paper with the focus on obligations rather than arrangements.
- Some modifications to the enforceability section have been made to address respondent's concerns. The Secretariat note that this section will need to be further reviewed to align with Section 24.
- The decision tree in ED 2 has been replaced by the decision tree in the previous section

3.2 The revised text of the grant model can be found in Appendix A. Revisions since ED 2 are shown in marked-up text. Where paragraphs have been moved from the Application Guidance, these are shown shaded.

Question 3:	Do TAG members support the revised text of the grant model requirements?

4. Donations in-kind

4.1 At its September 2024 meeting, the TAG considered the responses to the ED2 proposals for donations in-kind. TAG members noted the high level of support for the proposals relating to permitted exceptions to recognition and measurement requirements for donated items.

4.2 At that meeting, it was agreed that the permitted exceptions for donated items for resale and for use or distribution would be retained in line with the proposals in ED 2. Respondents had requested guidance on what constitutes a low-value item for the purposes of these exceptions, and the TAG agreed low value should be determined by reference to materiality. Guidance on applying materiality has been included as part of Implementation Guidance. This guidance relies on enhanced materiality guidance proposed for Section 2, and therefore only discusses how materiality can be applied to donations in-kind.

4.3 It was also agreed to retain the permitted exception for services in-kind that are not critical to an NPO's mission. Respondents had requested additional guidance on what services should be considered mission-critical. In line with the discussions at the meeting, mission critical services are now described as those services that are directly involved in the delivery of the NPO's mission, and where all or part of the mission could not be achieved without the receipt of the services in-kind. A new Illustrative Example has been added. The Secretariat propose deleting the existing services in-kind example in ED 2, as this covered similar ground. The existing example is less detailed than the proposed new example, and would therefore be less helpful for users of INPAG.

4.4 ED 2 acknowledged that NPOs may not be able to reliably measure all mission-critical services in-kind, and included guidance on the treatment where reliable measurement is not possible. No guidance was provided for those cases where other donated items or services could not be reliably measured.

4.5 The Secretariat are proposing to widen the guidance for reliable measurement to include all donations in-kind. As discussed later in this paper, the disclosure requirements have been amended to cover all donations in-kind that are not recognised on receipt, whether because the NPO is using a permitted exception or because they cannot be reliably measured.

4.6 The revised text of the donation in-kind requirements can be found in Appendix A, starting at paragraph G23.64. The new Implementation Guidance and Illustrative Example can be found in Appendix B. Revisions since ED 2 are shown in marked-up text.

Question 4:	Do TAG members support the revised text of the donations in-kind requirements?

5. Disclosures

5.1 At its September 2024 meeting, the TAG discussed respondents' comments on the disclosure requirements in the light of the earlier discussions on the recognition and measurement requirements, in particular donations in-kind.

5.2 The TAG agreed to strengthen the disclosure requirements in respect of donations in-kind. However, the TAG also agreed that the encouragement to disclose a best estimate of the value of donations in-kind that had not been recognised was not appropriate.

5.3 Following the September meeting, the Secretariat has revised the disclosure requirements to require an NPO to:

- analyse all revenue into revenue received (or receivable) in cash, as gifts in-kind or as services in-kind (previously only required for OFA, using the ED 2 terminology);
- provide a description of any donations in-kind not recognised and their significance to the NPO;
- provide an explanation as to why donations in-kind 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); and
- consider what other information (including any quantitative information the NPO might hold) will be useful to users of the financial statements.

5.4 While an NPO is required to consider what other information it holds that will be useful to users of the financial statements, the NPO is not required to generate qualitative information that it does not already hold for other purposes.

5.5 The encouragement for an NPO 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 has been removed

5.6 The revised text of the disclosure requirements can be found in Appendix A, beginning at paragraph G23.92. Revisions since ED 2 are shown in marked-up text. It should be noted that the disclosures for grant revenue will be further reviewed to take account of feedback on Section 36.

Question 5: Do TAG members support the revised text of the disclosure requirements, particularly in relation to donations in-kind?

6. Approach to *IFRS for SMES* Accounting Standard 3rd edition

6.1 Following the IASB's review of the responses to the ED, a draft of the 3rd edition of the *IFRS for SMEs* Accounting Standard has been circulated to the SME Implementation Group members for their comments. The IASB is expected to issue the *IFRS for SMES* Accounting Standard in early 2025.

6.2 Section 23 of the *IFRS for SMEs* Accounting Standard covers revenue from contracts with customers. The requirements of Section 23 of the ED were included as Part II of Section 23 of INPAG. Revenue from contracts with customers was not a priory area for INPAG, and the requirements were incorporated without being reviewed, other than for changes in terminology.

6.3 Part I of Section 23 of INPAG drew on the wording in the *IFRS or SMEs* Accounting Standard where the requirements for Enforceable Grant Obligations (EGOs) were similar to the requirements for contracts with customers. In addition, Part I included cross references to Part II where the less common requirements for contracts with customers matched the requirements for EGOs.

6.4 Section 23 of the *IFRS for SMEs* Accounting Standard is one of the sections that has been significantly revised by the IASB in response to feedback to its Exposure Draft. While the substance of the section remains unchanged, the section was one of a number of sections revised following a plain English language review. The section has also been restructured, with those aspects of the requirements that the IASB expects to be less common now located in Application Guidance.

6.5 The Secretariat's proposed approach to the changes made to Section 23 of the *IFRS for SMEs* Accounting Standard is set out in the following paragraphs.

Restructuring of Section 23 of the IFRS for SMEs Accounting Standard

6.6 As noted above, the IASB has moved some of the less common aspects of revenue from contracts with customers to Application Guidance. The Secretariat propose to replicate this restructuring within INPAG.

6.7 One exception relates to principal versus agent considerations. This guidance is now proposed to be in Application Guidance in the *IFRS for SMEs* Accounting Standard, having previously been included in the core text. However, this guidance had previously been relocated in INPAG. As the concept might be relevant to grant revenue as well as revenue from contracts with customers, ED 2 included this guidance in the introductory material to INPAG Section 23. The Secretariat is not proposing to change the location of this guidance.

6.8 Two of the topics now included in the Application Guidance in the *IFRS for SMEs* Accounting Standard are topics that are also relevant to grant revenue, and where, in ED 2, Part I of Section 23 referred users to Part II. These are modifications to contracts and non-cash consideration.

6.9 The Secretariat considered whether the Application Guidance could be modified to cover grant revenue as well as revenue from contracts with customers. However, the Secretariat concluded that this approach would not be consistent with the rules of the road adopted in developing INPAG. Consequently, the Secretariat proposes the inclusion of the Application Guidance (other than principal versus agent considerations) unchanged. Where Part I of Section 23 includes cross references to Part II, these cross references will refer to the Application Guidance where relevant.

6.10 The other topics within the Application Guidance, or example warranties, customer options, and licensing are not relevant to grant revenue.

Use of plain English language

6.11 As mentioned above, the text of Section 23 of the *IFRS for SMEs* Accounting Standard has been revised following a plain English language review. In line with the rules of the road adopted in developing INPAG, the Secretariat proposes to reflect the revised language in Part II of Section 23 of INPAG. The only changes to the text in this part, other than those already discussed, will be to reflect INPAG terminology.

6.12 Because Part I of Section 23 of INPAG also draws on the wording used in the *IFRS for SMEs* Accounting Standard, the wording in Part I will be reviewed as it is developed. Where the revisions to the wording in the *IFRS for SMEs* Accounting Standard will also be helpful in Part I, the Secretariat proposes revising the text in Part I in line with the IASB's revised wording.

Promises

6.13 At its September 2024 meeting, it was noted that the *IFRS for SMEs* Accounting Standard uses the term 'promises' where IFRS 15, *Revenue from Contracts with Customers*, uses the term 'performance obligations'.

6.14 At the meeting, some members considered the use of the term 'promises' might cause misunderstandings, and expressed the view that the retention of the term 'performance obligations' might be preferable.

6.15 The Secretariat notes that, while the *IFRS for SMEs* Accounting Standard uses the term 'promises', this is not a recent change. The term 'promises' was included in the *IFRS for SMEs* Accounting Standard ED. Consequently, Part II of Section 23 of INPAG also used the term 'promises' in ED 2. Respondents to ED 2 did not raise any concerns regarding the use of this term.

6.16 The Secretariat acknowledges the concerns expressed at the September 2024 meeting. However, as ED 2 has already used the term 'promises', and this has not resulted in any concerns being raised, the Secretariat consider that it would be appropriate to follow the rules of the road and retain the term promises in INPAG.

Impact on accounting for delivery obligations

6.17 The TAG has previously agreed that, where a section is NPO specific or has been substantially reviewed, Application Guidance should generally be relocated to the core text to provide a better flow.

6.18 This may not be appropriate for the requirements for accounting for delivery obligations, as:

- Cross references are made to Part II, therefore not all the requirements will be in one place;

- Some of these cross references will be to the Part II Application Guidance; and
- As a consequence, moving all the original Application Guidance to the core text will not improve the flow for complex grant agreements.

6.19 The Secretariat therefore proposes to move text included in Application Guidance in ED 2 into the core text except for the Application Guidance for use of the 5-step model for delivery obligations. This will remain as Application Guidance as this is expected to result in guidance that is easier to understand.

Question 6: Do TAG members support the Secretariat's proposals in respect of:

(a) Restructuring;
(b) Plain English language revisions;
(c) The use of the term promises; and
(d) Retention within application guidance of guidance relating to the 5-step model for delivery obligations.

November 2024

Appendix A – Revisions to grant model text

Section 23 – Revenue

Scope of this section

G23.1 This section specifies the accounting for revenue by NPOs.

G23.2 Section 23 applies to all **revenue** except:

(a) equity contributions received (see Section 22 *Liabilities and equity* ~~[ED3]~~).
(b) **lease** agreements within the scope of Section 20 *Leases* ~~[ED3]~~;
(c) insurance contracts;
(d) financial instruments and other contractual rights or obligations within the scope of Section 9 *Consolidated and separate financial statements*, Section 11 *Financial instruments*, Section 14 *Investments in associates* and Section 15 *Joint arrangements* that are not grants and donations; and
(e) non-monetary exchanges between entities in the same line of business to facilitate sales to customers or potential customers.

G23.3 A transaction may be partially within the scope of this section and partially within the scope of the other INPAG sections set out in paragraph G23.2 (for example, a lease agreement that includes the provision of services). If the other section specifies how to separate or initially measure any parts of the transaction, then an NPO shall first apply the separation or measurement requirements in that section. Otherwise, the NPO shall apply this section to separate or initially measure those parts of the transaction.

Structure of Section 23

G23.4 This section comprises two parts: Part I *Revenue from grants and donations* and Part II *Revenue from contracts with customers* (see Figure AG23.1).

G23.5 Part I relates to accounting for revenue from grants, donations and similar income. It is revenue that arises from a transaction in which an NPO receives cash, a service, good or other asset from another entity or individual without directly providing any cash, or a service, good or other asset in return to the provider of those resources. This form of revenue is sometimes known as non-exchange revenue, non-reciprocal revenue or unrequited revenue.

G23.6 Part II relates to accounting for revenue from contracts with customers. This is revenue that an NPO earns from providing services, goods or other assets to customers (be they an entity or individual), usually at a market rate. This form of revenue is sometimes known as commercial revenue, exchange revenue, reciprocal revenue or requited revenue.

G23.7 The part of Section 23 that an NPO is required to apply to a revenue transaction depends on the economic substance of that transaction (see Figure ~~A~~G23.1). As a consequence, there may be situations where it is necessary to apply both parts of Section 23 to an individual transaction (that is, an NPO may need to separate a transaction into a grant component – accounted for using Part I – and a contract component – accounted for using Part II). For example, goods or services provided at a significant subsidy may, in substance, be the provision of a grant, along with the goods or services). ~~Paragraphs AG23.3–AG23.13 and Figure AG23.1 provide additional guidance, separating a transaction into separate elements where revenue transactions involve a subsidy being received or given by an NPO.~~

G23.8 ~~Whether to use Part I *Revenue from grants and donations* or Part II *Revenue from contracts with customers* depends on the economic substance of each revenue transaction (see Figure AG23.1).~~ Where~~, for example,~~ an ~~organisation provides an~~ NPO receives~~with cash~~ resources to support its provision of services, and:

- ~~the NPO~~it has control of the **economic resources** transferred because it has discretion over how the ~~cash~~ resources are~~is~~ utilised without requiring further authorisation from the ~~cash providing organisation~~grant provider; and
- the ~~cash providing organisation~~grant provider does not receive directly cash, a service, good or other asset in return by NPO;

the economic substance of this transaction means that the NPO ~~should~~ applies~~y~~ Part I for accounting for revenue from grants, donations and similar transfers.

G23.9 In contrast, where~~, for example,~~ an ~~organisation asks an~~ NPO ~~to~~ provides ~~it with~~ a service for a fee (including to grant providers), the economic substance of this transaction involves the NPO directly providing a service ~~to the organisation~~ in exchange for consideration and means that the NPO ~~should~~ applies~~y~~ Part II for accounting for revenue from contracts with customers.

G23.10 ~~Also, a~~An NPO may be required to treat an element of a transaction as a grant expense (where Section 24, Part I *Expenses on grants and donations* will apply). For example, goods or services provided at a significant subsidy may, in substance, be the provision of a grant, along with the goods or services). ~~Paragraphs AG23.3–AG23.13 and Figure AG23.1 provide additional guidance, separating a transaction into separate elements where revenue transactions involve a subsidy being received or given by an NPO.~~

INTERNATIONAL FINANCIAL REPORTING
FOR NON PROFIT ORGANISATIONS

Figure G23.1: Decision trees illustrating which Part to apply to a revenue transaction

An NPO is receiving cash, or a service, good or other asset from another entity or individual without directly providing cash, or a service, good or other asset in return, or is directly providing a service, good or other asset to an entity or individual in exchange for an amount of cash, or a service, good or other asset.

Has the NPO received cash, or a service, good or other asset from another entity or individual without directly providing cash, or a service, good or other asset in return to the provider of those resources?

Yes

Apply Part I *Revenue from grants and donations* to entire transaction.

No

Has the NPO directly provided a service, good or other asset to an entity or individual in exchange for an amount of cash, or a service, good or other asset that is of approximately equivalent value?

Yes

Apply Part II *Revenue from contracts with customers* to entire transaction.

No

Is the amount received materially below or above equivalent value and not a commercial discount?

Difference is due to a commercial discount

Below

Above

Subject to materiality and cost-benefit considerations

Apply Section 24, Part I *Expenses on grants and donations* in presenting the difference between the amount received and equivalent value.

Apply Part II *Revenue from contracts with customers* to the remaining amount of transaction.

Apply Part I *Revenue from grants and donations* to the difference between the amount received and equivalent value.

Apply Part II *Revenue from contracts with customers* to remaining amount of the transaction.

~~Economic substance of transactions – the amounts given and received are not of approximately equivalent value~~

~~Revenue – an NPO provides services, goods or other assets and receives an amount of cash, services, goods or other assets that is not of approximately equivalent value~~

~~An NPO may receive an amount that is either higher or lower than the value of the services, goods or other assets provided by the NPO. Where this is the case, the NPO shall determine how best to account for the substance of the transaction in accordance with paragraphs G23.11–G23.12.~~

~~Value received is below approximately equivalent value~~

~~Where the amount received by an NPO is below approximately equivalent value, the NPO shall determine whether the lower amount is because the NPO has provided a commercial discount or has provided a grant or donation to the other party by considering the substance of the transaction.~~

~~Where the goods, services or other assets are being provided at a commercial discount, the NPO shall apply Part II *Revenue from contracts with customers* in accounting for the transaction.~~

~~When the NPO is providing a grant or donation along with the services, goods, or other assets, the NPO shall:~~

- ~~apply Part II *Revenue from contracts with customers* in accounting for the revenue; and~~
- ~~present or disclose the amount of grants or donations in accordance with Section 24, Part I *Expenses on grants and donations*. The grant or donation is the difference between the fair value of the services, goods or other assets provided, or to be provided, and the amount received or receivable.~~

~~An NPO may elect not to reflect the intention to make a donation or grant where the difference is not material or the cost of identifying the donation or grant exceeds the likely benefit to users of the financial statements.~~

~~Value received is above approximately equivalent value~~

~~When the amount received by an NPO is above approximately equivalent value, the NPO is, in substance, receiving a grant or donation in addition to the payment it receives for providing services, goods or other assets. The NPO shall therefore recognise the fair value of the services or goods to be provided in accordance with Part II *Revenue from contracts with customers* and the remainder (the grant or donation received) in accordance with Part I *Revenue from grants and donations*.~~

~~An NPO may elect not to separately account for the amount of the grant or donation in accordance with Part II where the cumulative effect of not accounting for such grants and donations is not material, or the cost of identifying the grants and donations exceeds the likely benefit to users of the financial statements.~~

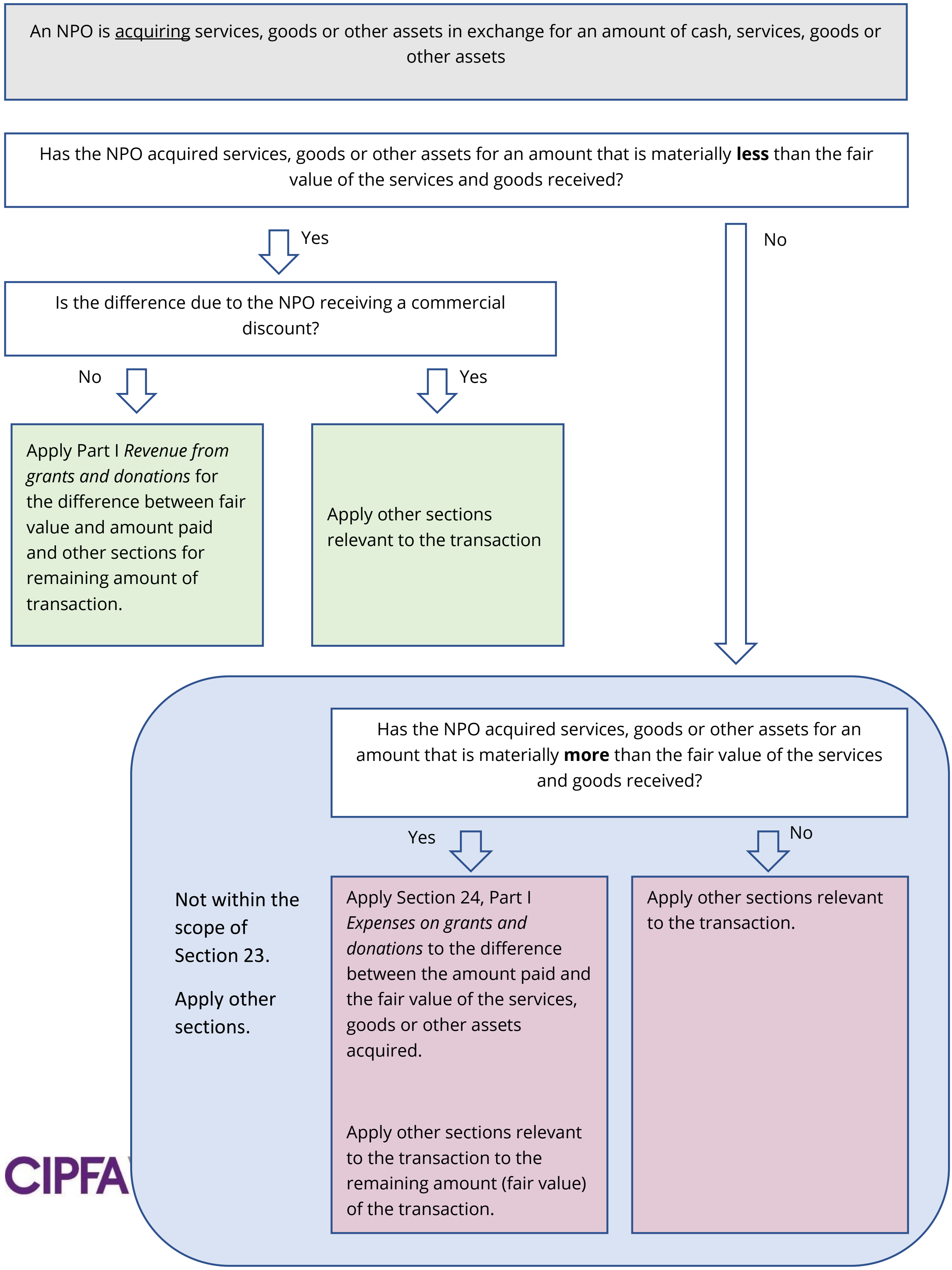
~~Expenses – an NPO acquires services, goods or other assets in exchange for an amount of cash, services, goods or other assets below approximately equivalent value~~

~~An NPO may acquire goods or services for an amount that is less than the fair value of the goods or services to be received. The NPO shall determine whether it has received a commercial discount or a grant or donation by considering the substance of the transaction. An NPO that acquires goods or services for more than the fair value of the goods or services is in substance providing a grant to the other entity and shall apply Part I of Section 24 in accounting for that grant.~~

~~When the substance of the transaction is that the NPO has received a commercial discount, the NPO shall account for the acquisition of the services, goods or other assets in accordance with the relevant section of INPAG.~~

~~When the substance of the transaction is that the NPO has received a grant or donation, the grant or donation shall be recognised in accordance with Part I *Revenue from grants and donations*. The NPO shall recognise the receipt of a grant or donation for the difference between the fair value of the services and goods received and the amount transferred. The NPO shall account for the element that relates to the acquisition of the services, goods or other assets in accordance with the relevant section of INPAG.~~

~~An NPO may elect not to reflect the grant or donation received where the difference is not material or the cost of identifying the grant or donation exceeds the likely benefit to users of the financial statements.~~


An NPO is acquiring services, goods or other assets in exchange for an amount of cash, services, goods or other assets
Has the NPO acquired services, goods or other assets for an amount that is materially **less** than the fair value of the services and goods received?
Yes
No
Is the difference due to the NPO receiving a commercial discount?
No
Yes
Apply Part I *Revenue from grants and donations* for the difference between fair value and amount paid and other sections for remaining amount of transaction.
Apply other sections relevant to the transaction
Has the NPO acquired services, goods or other assets for an amount that is materially **more** than the fair value of the services and goods received?
Yes
No
Not within the scope of Section 23.
Apply other sections.
Apply Section 24, Part I *Expenses on grants and donations* to the difference between the amount paid and the fair value of the services, goods or other assets acquired.
Apply other sections relevant to the transaction to the remaining amount (fair value) of the transaction.
Apply other sections relevant to the transaction.

Principles for revenue recognition and measurement

G23.11 The general principles for recognising revenue are as follows:

(a) a revenue transaction (or component of a transaction) that does not impose specified ~~**enforceable grant obligations (EGOs)**~~**delivery obligations** on the NPO or does not require the satisfaction of promises in a contract with customers is recognised as revenue when the amounts are received or, if earlier, become receivable;

(b) a revenue transaction that imposes specified ~~EGOs~~ delivery obligations on the NPO or requires the satisfaction of promises in a contract with customers is recognised as revenue only when the ~~EGOs~~ delivery obligations or promises are met; and

(c) amounts received before the revenue recognition criteria are satisfied are recognised as a liability.

G23.12 A liability recognised in accordance with paragraph G23.11(c) is subsequently derecognised, and revenue recognised, when the ~~EGOs~~ delivery obligations or promises are met.

G23.13 An NPO shall measure revenue at the fair value of the asset received or receivable, or the reduction in a liability where ~~the~~ a **grant provider** forgives an NPO's obligation.

Initial recognition of revenue from ~~enforceable grant arrangements~~~~transactions~~grant agreements with delivery obligations or contracts with customers

5 step model

G23.14 For revenue transactions that impose specified ~~EGOs~~ delivery obligations on the NPO or require the satisfaction of promises in a contract with customers, Parts I and II share a common 5 step revenue recognition model. The objective of the model is for an NPO to recognise revenue that reflects the amount to which ~~the NPO~~it expects to be entitled for meeting each ~~EGO~~ delivery obligation or promise. This is applicable to revenue from grants and donations where ~~there is an **enforceable grant arrangement (EGA)**~~ a grant agreement includes one or more delivery obligations and to all revenue from contracts with customers. Each step is summarised below, highlighting the differences in terminology depending on which ~~part~~ Part applies to the transaction.

Step	Part I *Revenue from ~~grants and donations~~* ~~G~~**grant agreements** with ~~enforceable grant arrangements~~**delivery obligations**	Part II *Revenue from contracts with customers*
1 – Identify the existence and nature of grant ~~arrangements~~ agreements with delivery obligations and contracts.	Identify if there is an ~~EGA~~grant agreement with delivery obligations, and if so, identify the nature of the agreement, including identifying any components without a delivery obligation~~arrangement~~.	Identify the contract(s) with a customer.
2 – Identify the ~~EGOs~~ delivery obligations or promises.	Identify the ~~EGOs~~ delivery obligations in the ~~EGA~~ grant agreement that arise from undertakings given by the NPO.	Identify the promises in the contract. 'Promises' is used to refer to both the actions an NPO will undertake (equivalent to undertakings in Part I) and the obligation to carry out those actions (equivalent to ~~EGOs~~ delivery obligations in Part I).
3 – Determine the transaction amount or price.	Determine the transaction amount (the total amount of the grant).	Determine the transaction price.
4 – Allocate the transaction amount or price to the ~~EGOs~~ delivery obligations or promises.	Allocate the transaction amount to ~~EGOs~~ delivery obligations (where there is more than one ~~EGO~~delivery obligation or other obligations that are not delivery obligations).	Allocate the transaction price to the promises in the contract (where there is more than one promise).

Step	**Part I** ***Revenue from ~~grants and donations~~*** **~~G~~grant agreements with ~~enforceable grant arrangements~~delivery obligations**	**Part II** ***Revenue from contracts with customers***
5 – Recognise revenue when (or as) the NPO satisfies ~~an EGO~~a delivery obligation or promise.	Recognise revenue when (or as) the NPO satisfies an EGO.	Recognise revenue when (or as) the NPO satisfies a promise.

An NPO may need to refer to Part II for more complex, less common grant transactions. Paragraphs AG1–AG4 set out how Part II is to be applied to such grants. ~~Paragraph AG23.47AG23.62 includes guidance on applying Part II to less complex contracts with customers~~.

Unsatisfied transactions

G23.15 When ~~an EGA~~a grant agreement with a delivery obligation (Part I) or a contract with a customer (Part II) is wholly unsatisfied, an NPO shall not recognise any asset, liability or revenue associated with ~~the~~ that ~~EGA~~ grant agreement ~~with delivery obligations~~ or contract. The recognition of assets, liabilities and revenues commences when one party to the ~~EGA~~ grant agreement or contract starts to satisfy their obligations under the arrangement.

G23.16 ~~EGAs~~ Grant agreements and contracts with customers will be wholly unsatisfied if the NPO has not yet met any of its stated ~~EGOs~~ delivery obligations in the ~~EGA~~ grant agreement or promises in a contract and the **grant provider** or customer has not yet paid, and is not yet obligated to pay~~,~~ consideration to the NPO.

Economic substance of transactions – the amounts given and received are not of approximately equivalent value

Revenue – an NPO provides services, goods or other assets and receives an amount of cash, services, goods or other assets that is not of approximately equivalent value

G23.17 An NPO may receive an amount that is either higher or lower than the value of the services, goods or other assets provided by the NPO. Where this is the case, the NPO shall determine how best to account for the substance of the transaction in accordance with paragraphs G23.18–G23.1.

Value received is below approximately equivalent value

G23.18 Where the amount received by an NPO is below approximately equivalent value, the NPO shall determine whether the lower amount is because the NPO has provided a commercial discount or has provided a grant or donation to the other party.

G23.19 Where the goods, services or other assets are being provided at a commercial discount, the NPO shall apply Part II *Revenue from contracts with customers* in accounting for the transaction.

G23.20 When the NPO is providing a grant or donation along with the services, goods, or other assets, the NPO shall:

(a) apply Part II *Revenue from contracts with customers* in accounting for the revenue; and
(b) present or disclose the amount of grants or donations in accordance with Section 24, Part I *Expenses on grants and donations*. The grant or donation is the difference between the fair value of the services, goods or other assets provided, or to be provided, and the amount received or receivable.

Value received is above approximately equivalent value

G23.21 When the amount received by an NPO is above approximately equivalent value, the NPO is, in substance, receiving a grant or donation in addition to the payment it receives for providing services, goods or other assets. The NPO shall recognise the fair value of the services or goods provided in accordance with Part II *Revenue from contracts with customers* and the remainder (the grant or donation received) in accordance with Part I *Revenue from grants and donations*.

Expenses – an NPO acquires services, goods or other assets in exchange for an amount of cash, services, goods or other assets below approximately equivalent value

G23.22 An NPO that acquires goods or services for more than the fair value of the goods or services is in substance providing a grant to the other entity and shall apply Part I of Section 24 in accounting for that grant.

G23.23 An NPO may acquire goods or services for an amount that is less than the fair value of the goods or services to be received. The NPO shall determine whether it has received a commercial discount or a grant or donation.

G23.24 When the substance of the transaction is that the NPO has received a commercial discount, the NPO shall account for the acquisition of the services, goods or other assets in accordance with the relevant section of INPAG.

G23.25 When the substance of the transaction is that the NPO has received a grant or donation, the grant or donation shall be recognised in accordance with Part I *Revenue from grants and donations*. The NPO shall recognise the receipt of a grant or donation for the difference between the fair value of the services and goods received and the amount transferred. The NPO shall account for the element that relates to the acquisition of the services, goods or other assets in accordance with the relevant section of INPAG.

Permitted exception

G23.26 An NPO may elect not to reflect the grant or donation received or its intention to make a grant or donation where the difference is not material or the cost of identifying the grant or donation exceeds the likely benefit to users of the financial statements.

An NPO is acquiring services, goods or other assets in exchange for an amount of cash, services, goods or other assets

Has the NPO acquired services, goods or other assets for an amount that is materially **less** than the fair value of the services and goods received?

Yes → Is the difference due to the NPO receiving a commercial discount?

- No → Apply Part I *Revenue from grants and donations* for the difference between fair value and amount paid and other sections for remaining amount of transaction.
- Yes → Apply other sections relevant to the transaction

No → Has the NPO acquired services, goods or other assets for an amount that is materially **more** than the fair value of the services and goods received?

- Yes → Apply Section 24, Part I *Expenses on grants and donations* to the difference between the amount paid and the fair value of the services, goods or other assets acquired.

  Apply other sections relevant to the transaction to the remaining amount (fair value) of the transaction.
- No → Apply other sections relevant to the transaction.

Not within the scope of Section 23.

Apply other sections.

Revenue in foreign currencies

~~G23.17~~G23.27 An NPO may receive revenue in a foreign currency. Measurement of revenue in a foreign currency may be affected by the point at which amounts are translated from the foreign currency to the reporting currency.

~~G23.18~~G23.28 The effect of changes in foreign exchange rates after the inception of an ~~EGA~~ grant agreement or contract with a customer are accounted for in accordance with Section 30 *Foreign currency translation.*

Principal versus agent considerations

~~G23.19~~G23.29 When another party is involved in satisfying the requirements of ~~an EGA~~a grant agreement or contract with a customer, an NPO shall determine whether the nature of its obligation is to satisfy the requirements itself (that is, the NPO is a principal) or to arrange for those requirements to be met by the other party (that is, the NPO is an agent). An NPO shall determine whether it is a principal or an agent for each ~~EGO~~ delivery obligation in ~~an EGA~~a grant agreement and each promise in a contract. An NPO cannot be an agent unless it has a present obligation to the grant provider or customer.

~~G23.20~~G23.30 An NPO is a principal if:

(a) it is primarily responsible for meeting the requirements of the ~~EGA~~ delivery obligation or contract;

(b) when the NPO transfers goods to a service recipient or customer, the NPO obtains control of the specified goods as inventory before it transfers them to the service recipient or customer (that is, the NPO has inventory risk before the goods are transferred); or

(c) when the NPO provides services to a service recipient or customer, it obtains control of the specified service or right to the specified good or service before:

   (i) it provides the services to the service recipient or customer; or

   (ii) it directs another party who is acting on the NPO's behalf to provide the service to the service recipient or customer.

If none of the circumstances in (a)–(c) apply, the NPO is an agent.

~~G23.21~~G23.31 An NPO that is a principal shall recognise the gross amount of revenue to which the NPO expects to be entitled for satisfying the requirements of ~~an EGA~~a grant agreement or contract.

~~G23.22~~G23.32 An NPO that is an agent shall recognise the amount of any management or administration charge, fee or commission to which the NPO expects to be entitled in exchange for arranging for the requirements of the ~~EGA~~ grant agreement or contract to be satisfied as revenue.

Presentation

~~G23.23~~G23.33 An NPO shall apply Section 36 *Fund accounting* ~~[ED 3]~~ to determine the presentation of grant revenue as from funds with restrictions or funds without restrictions.

Part I – Revenue from grants and donations

Scope of Part I

G23.34 Part I specifies the accounting for revenue from grants, donations and similar income (hereafter referred to as grant revenue) as described in G23.5.

G23.35 Section 23 Part I uses the term grant to encompass any cash, service, good or other asset that is transferred by a grant provider to an NPO without the NPO directly providing any cash, service, good or other asset in return. A grant may therefore arise not only from items commonly described as grants but also items that may otherwise be described as donations, gifts and similar transfers of resources.

~~G23.24~~G23.36 In Section 23 Part I, the term resource includes goods, services and other assets, which may encompass cash, financial assets or non-current assets. References to goods or services are to be read as incorporating references to cash and other assets.

~~G23.25~~G23.37 The accounting for expenditure ~~by an NPO~~ on grants, donations and similar transfers by an NPO as a grant provider is specified in Section 24, Part I *Expenses on grants and donations*.

~~Terminology~~

~~NPOs may receive funds in the form of grants, donations and similar income. Section 23 Part I uses the term grant to encompass any cash, service, good or other asset that is transferred by a grant provider to an NPO without the NPO directly providing any cash, service, good or other asset in return. A grant may therefore arise not only from items commonly described as grants but also items that may otherwise be described as donations, gifts and similar transfers of resources.~~

~~In Section 23 Part I, the term resource includes goods, services and other assets, which may encompass cash, financial assets or non-current assets. References to goods or services are to be read as incorporating references to cash and other assets.~~

Types of grant revenue

~~G23.26~~G23.38 Grant revenue may arise:

(a) from transactions or grant agreements that:
  (i) impose no constraints on the NPO's ability to use the grant revenue; or
  (ii) impose requirements that constrain an NPO's ability to use the grant revenue, without requiring the NPO to undertake specific activities or identify~~ing~~ distinct services, goods and other assets; or

(b) from ~~EGAs~~ grant agreements that have one or more distinct delivery obligations.~~:~~
  ~~(i) only one EGO~~~~delivery obligation;~~
  ~~(ii) multiple distinct EGOs~~~~delivery obligations.~~

~~G23.27~~G23.39 A grant agreement can arise through a written grant agreement, an oral agreement or be implied by a party's or a sector's customary practices.~~Delivery obligations arise from grant agreements An EGA is a grant arrangement where both the donor and the grant recipient have both rights and obligations, enforceable through legal or equivalent means. An EGA includes at least one EGO.~~

~~G23.28~~G23.40 Delivery obligations arise from grant agreements where both the donor and the grant recipient have both rights and obligations, enforceable through legal or equivalent means. Enforceability can arise from various mechanisms, so long as the mechanism(s) provide each entity with the ability to hold the parties accountable for the satisfaction of their obligations.~~An EGAA grant agreement with delivery obligations can arise through a written grant agreement, an oral agreement or be implied by a party's or a sector's customary practices. In determining whether a grant arrangement agreement or individual delivery obligation is enforceable, an NPO must consider the substance rather than the legal form of the grant arrangement.~~

~~G23.29~~G23.41 A~~n~~ ~~EGA~~ delivery obligation must specify:

- the outcome the NPO is expected to achieve;
- the activities that the NPO is required to undertake with the resources; or
- the distinct services, goods and other assets that the NPO will use internally or transfer externally.

G23.42 For a grant agreement or delivery obligation to be enforceable, the grant provider must be able to determine whether the recipient has complied with its obligations. If the obligations imposed on the recipient are not sufficiently specific, the grant provider will not be able to make this determination, and any obligations within the grant agreement will not be delivery obligations.

~~G23.30~~G23.43 In determining whether a grant agreement or individual delivery obligation within a grant agreement is enforceable, an NPO must consider the substance rather than the legal form of the grant agreement. ~~This undertaking by the grant recipient in an EGA is an EGO. An EGO~~A delivery obligation creates a present obligation for the NPO.

~~G23.31~~G23.44 ~~An arrangement~~A grant agreement ~~with an NPO~~ that does not specify the outcomes, activities or identify distinct services, goods and other assets may nevertheless include requirements that constrain an NPO's ability to use the grant revenue.

G23.45 If these requirements do not meet the definition of ~~an EGO~~a delivery obligation, the requirement will not create a present obligation when resources are transferred.

The NPO's assessment of enforceability occurs at inception and subsequently when a significant external change indicates that there may be a change in the enforceability of that agreement.

~~G23.32~~G23.46

~~G23.33~~G23.47 An ~~arrangement~~ agreement ~~with a grant provider~~ that is not enforceable through legal or equivalent means and does not give both parties both rights and obligations will not give rise to delivery obligation and is categorised as a~~n other funding arrangement (OFA)~~grant agreement without delivery obligations. ~~The type of grant revenue will determine its recognition and measurement.~~

~~Identify the grant revenue transaction~~

~~For a grant arrangement~~ agreement ~~to be enforceable, it must be enforceable through legal or equivalent means. Enforceability can arise from various mechanisms, so long as the mechanism(s) provide each entity with the ability to hold the parties accountable for the satisfaction of their obligations.~~

Enforceability

G23.48 Grant agreements can be evidenced in several ways (see paragraphs G23.50–G23.51)~~. A grant agreement can be written, oral or implied by an NPO's customary practices.~~ The practices and processes for establishing grant agreements vary across legal frameworks, jurisdictions, sectors and entities. In addition, they may vary within an NPO (for example, they may depend on the grant provider or the nature of the NPO's delivery obligations). While enforceability usually applies to grant agreements as a whole, there may be some agreements where ~~some aspects of~~ enforceability ~~only apply~~applies to individual delivery obligations.

G23.49 A grant agreement is enforceable if the agreement includes:

(a) clearly specified rights and obligations for each involved party; and

(b) remedies for non-completion by each involved party, which can be enforced through the identified enforcement mechanisms.

Enforceability through legal or equivalent means

G23.50 ~~For a grant arrangement to be enforceable, it must be enforceable through legal or equivalent means. In determining whether a grant arrangement is enforceable, the NPO considers the substance rather than the legal form of the arrangement.~~ Whether a grant a~~rrang~~greement is enforceable is based on an NPO's assessment of the ability to enforce the specified terms and conditions of the grant ~~arrang~~greement and the satisfaction of the other parties' stated obligations.

G23.51 Enforceability ~~can arise from various mechanisms. While these~~ may be through legal systems, or there may ~~also~~ be alternative processes that have equivalent effect, depending on the parties involved in the grant agreement and the jurisdictions in which they are based.

G23.52 For an arrangement to be enforceable through 'equivalent means', the presence of an enforcement mechanism outside the legal system that is similar to the force of law without being legal in nature is required. This enforcement mechanism should:

(a) establish the right of the grant provider to obligate the NPO to complete the agreed obligation or be subject to remedies for non-completion; and

(b) establish the right of the NPO to obligate the grant provider to pay the agreed consideration.

~~For example, in some jurisdictions, NPOs may be subject to a form of regulatory oversight, which regardless of the legal basis of an individual agreement require NPOs to act in accordance with defined rules and directives or potentially face censure. This broader regulatory oversight may provide the parties to a grant agreement with the effective means to enforce the arrangement through appeal to a regulator, even if the specific agreement is not legally enforceable.~~

G23.53 Generally, the ability of a grant provider to reduce or withhold future funding will not on its own be a valid enforcement mechanism. This is because there is no present obligation on the grant-provider to provide the future funding, and the NPO has no right to receive future funding.

~~However, if the grant recipient is presently entitled to future funding through another grant agreement, and the terms of this other agreement specifically allow the grant provider to reduce future funding if other grant agreements are breached, this could be a valid enforcement mechanism. This will require the NPO to apply judgement based on the facts and circumstances, including any past history of funding being reduced where a grant provider had the right to do so.~~

~~Enforceability can arise from various mechanisms. An NPO should objectively assess all relevant factors at the transaction date to determine whether an arrangement is enforceable. In some jurisdictions, public sector entities are not legally able to enter into agreements in their own name, only that of the **government**. Alternative processes with equivalent effect to legal arrangements such as executive orders or ministerial directives are in place to ensure that agreed-upon obligations in an arrangement are enforceable.~~

~~G23.1 For an arrangement to be enforceable through 'equivalent means', the presence of an enforcement mechanism outside the legal system that is similar to the force of law without being legal in nature is required. This enforcement mechanism should:~~
~~(a) establish the right of the grant provider to obligate the NPO to complete the agreed obligation or be subject to remedies for non-completion; and~~
~~(a) establish the right of the NPO to obligate the grant provider to pay the agreed consideration.~~

Enforceability as a result of rights and obligations

G23.54 ~~An grant agreement with delivery obligations includes both rights and obligations that are enforceable for both parties.~~ Each party's enforceable right(s) and obligation(s) within the grant a~~rrang~~greement are interdependent and inseparable. This means that the grant provider has the ability to obligate the ~~NPO~~ recipient to complete the agreed obligation or be subject to remedies for not doing so, and the ~~NPO~~recipient is able to obligate the grant provider to pay the agreed grant amount even if these rights are rarely, if ever, exercised.

G23.55 The ~~NPOs~~recipients right to obligate the grant provider to pay the agreed grant amount may arise from the grant agreement providing that right, or from the grant agreement requiring the grant provider to pay the grant in advance, and the grant provider doing so. In the latter case, the absence of a remedy for non-compliance does not arise.

~~For a grant agreement or delivery obligation to be enforceable, the grant provider must be able to determine whether the NPO has complied with its obligations. If the obligations imposed on the NPO are not sufficiently specific, the grant provider will not be able to make this determination, and any obligations within the grant agreement will not be delivery obligations.~~

G23.56 For ~~an NPO's~~a recipient's obligations to be sufficiently specific for the grant arrangement to be enforceable, the terms of the agreement will refer to the outcomes the ~~NPO~~recipient has undertaken to achieve, the activities the ~~NPO~~recipient is required to carry out, or the goods or services that the ~~NPO~~recipient will either transfer to service recipients or use internally.

G23.57 A general statement of intent by a grant provider that it may transfer cash, or deliver goods, services or other assets in a certain way is not usually in and of itself an enforceable arrangement. ~~As the declaration is a~~A general statement of intent, ~~it~~ will not create a grant agreement between a grant provider and ~~an NPO~~a recipient under which both parties have rights and obligations.

~~G23.1 The NPO's assessment of enforceability occurs at inception and subsequently when a significant external change indicates that there may be a change in the enforceability of that agreement.~~

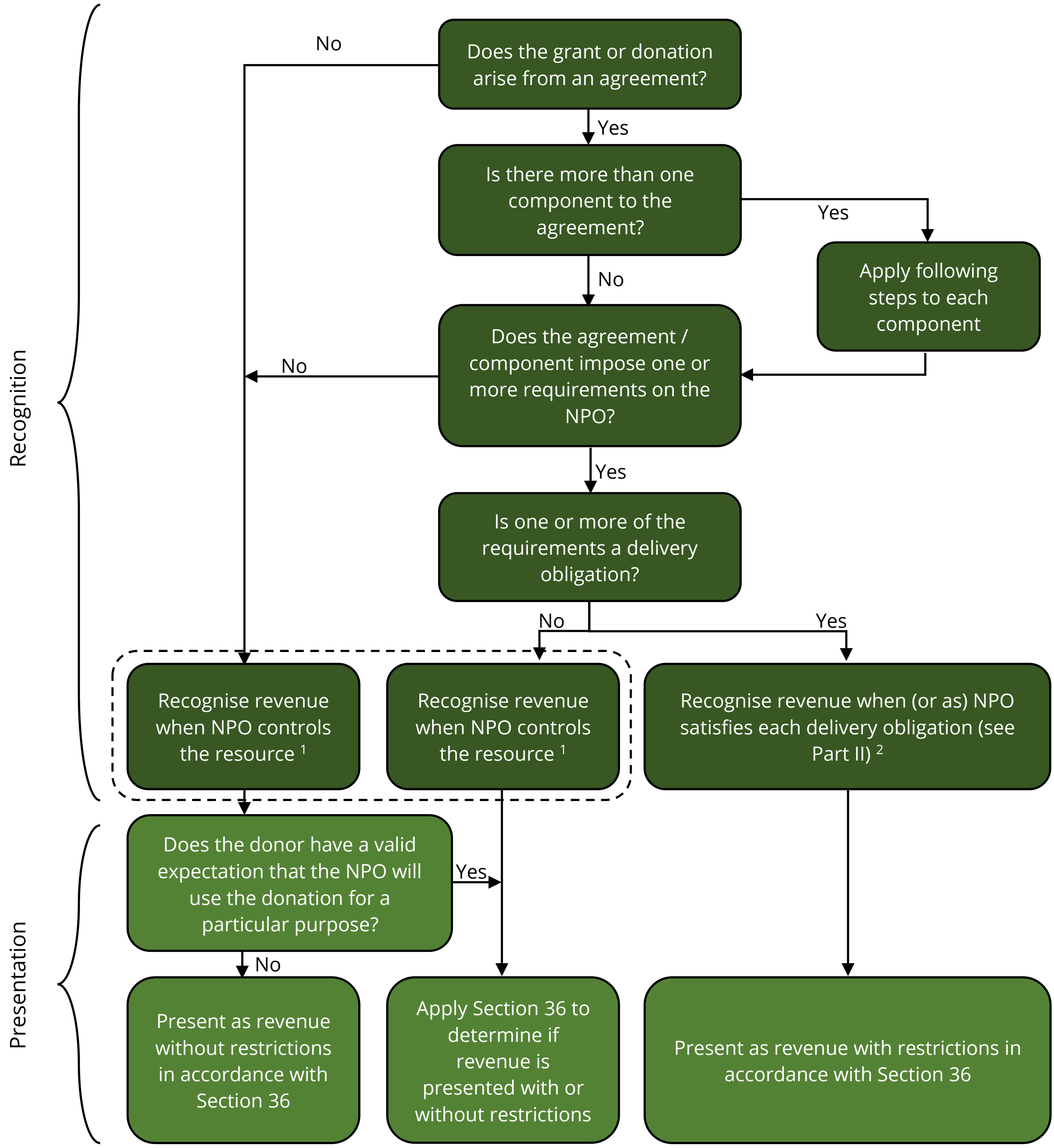
~~G23.1 A grant agreement is enforceable if the agreement includes:~~
~~(a) clearly specified rights and obligations for each involved party; and~~
~~(a) remedies for non-completion by each involved party, which can be enforced through the identified enforcement mechanisms.~~

Accounting for grants ~~arrangements~~

G23.58 An NPO will apply the recognition and measurement criteria in Section 23, Part I as follows:
(a) grant revenue arising from transactions ~~without EGAs (whether an OFA is in place or not)~~without delivery obligations is accounted for by applying paragraphs G23.60–G23.70; and
(b) grant revenue arising from transactions with ~~EGAs~~delivery obligations is accounted for by applying paragraphs G23.72–G23.91.

G23.59 Figure G23.2 below summarises the process for determining how to apply Part I of this section.

Figure G23.2: Decision tree illustrating how to apply Part I



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.

CIPFA

Grant revenue from transactions ~~from other funding arrangements~~without delivery obligations

~~G23.34~~G23.60 Grant revenue from transactions ~~under an OFA~~without delivery obligations will result in an asset (cash, goods, services or another asset) and revenue for an NPO. An NPO will not control these assets until such time as it has a right to those resources. The NPO will usually recognise both the asset and revenue when the asset is received or when the amount becomes receivable.

G23.61 The NPO shall measure the grant revenue and the asset (cash, receivable or other asset) at the fair value of the asset at the point at which it is recognised. Fair value shall be determined in accordance with Section 12 *Fair value measurement*. ~~[ED3]~~

G23.62 In circumstances where a~~n~~ ~~OFA~~grant agreement is required before resources can be transferred, an NPO will not ~~identify the resources as~~ control~~led~~ the resources until such time as the NPO has a right to those resources. This is because the NPO cannot exclude or regulate the access of the grant provider to the resources to be transferred. The NPO will need to establish that it has control of the resources before it can recognise them as an asset.

~~**Recognising revenue when an other funding arrangement becomes receivable**~~

~~An NPO recognises revenue from an OFA grant agreement without a delivery obligation when the resource is received or receivable, whichever is earlier. In most cases, this will be when the resource is received, as the NPO will usually not have a right to the resource prior to that point.~~

~~However, where an OFAa grant agreement without a delivery obligation is in place, it is possible that this will give the NPO the right to the resource at an earlier point. This right may enable the NPO to recognise revenue even if it has not already received the resource.~~

Subsequent measurement

~~G23.35~~G23.63 After initial recognition, an NPO shall subsequently measure:

(a) cash and receivable assets in accordance with Section 11 *Financial instruments* of INPAG; and

(b) all other assets in accordance with the relevant section of INPAG (examples include Section 13 *Inventories* and Section 17 *Property, plant and equipment*).

Donations in kind

~~G23.36~~G23.64 Donations in-kind include donations of non-cash items such as ~~goods~~ property, plant and equipment, inventorie~~y~~s and ~~other~~ financial assets, and services such as volunteer time. Donations in-kind are recognised and measured in accordance with paragraphs G23.60–G23.61 except as outlined in paragraphs G23.65–G23.70.

~~G23.37~~G23.65 NPOs may apply permitted exceptions to the general recognition and measurement requirements~~ for grant revenue under an OFA~~~~without a delivery obligation~~. This is because the cost of complying with the general requirements may exceed the benefits to the users of the financial statements of such compliance. These exceptions are not permitted ~~in relation~~for donations in-kind ~~to grant revenue~~provided to meet~~ from EGAs~~~~with~~ delivery obligations.

~~G23.38~~G23.66 An NPO may elect to depart from the general recognition and measurement requirements by:

(a) recognising revenue from low-value ~~assets~~ items 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, measured at the amount of the consideration received or receivable;

(b) recognising revenue from low value items donated for distribution to service recipients or for an NPO's own use when the items are distributed or used, measured at the fair value of the items at the time they are distributed or used; and

(c) not recognising revenue in respect of any services in-kind, except those that are critical to the NPO's mission.

G23.67 An NPO shall apply materiality in determining whether a donated item is of low value.

~~G23.39~~ Services in-kind that are critical to an NPO's mission are those services in kind that are directly involved in the delivery of the NPO's mission, and where all or part of the mission could not be achieved without the receipt of the services in-kind.~~ without which an NPO would have to **materially** reduce the level of its activities. Paragraphs AG23.35–AG23.36 provide additional guidance on determining which services are critical to an NPO's mission.~~ They do not include services in-kind that enhance a service recipient's experience.

~~Services in-kind are critical to an NPO's mission when, without those services, an NPO would have to materially reduce the level of its activities. An example would include an NPO whose mission is to provide a telephone counselling service, and where the majority of the counsellors are volunteers.~~

G23.68 Administrative services such as accountancy or legal services provided to an NPO are ~~not~~only critical to an NPO's mission ~~unless~~if such services are used to provide advice to service recipients. Otherwise, administrative services are not critical. This is the case even if they are necessary to the operation of the NPO as a whole, for example by enabling the NPO to meet its legal obligations.

~~G23.40~~G23.69 When applying a permitted exception, the NPO shall apply that exception to all items within a class of **inventories** ~~or other~~ assets.

~~G23.41~~G23.70 Donations in-kind may only be recognised when they can be measured reliably. ~~For services in-kind that are critical to the NPO's mission but cannot be reliably measured,~~ Where donations in-kind are not recognised by an NPO, the NPO is required to make the disclosures in paragraph G23.93.

Disclosure

~~G23.96~~G23.92 An NPO shall disclose the revenue ~~it~~ recognised from grants, donations and other income, disaggregated into categories, showing separately, as~~t~~ a minimum, revenue ~~arising from transactions~~without delivery obligations and revenue with delivery obligations.~~:~~ Each category of grants, donations and other income disclosed shall be further analysed to show revenue received or receivable:

~~(a) that are OFAs, disaggregated into:~~

~~(b)~~(a) ~~revenue received or receivable~~ in cash;

~~(c)~~(b) ~~revenue received~~ as gifts in-kind; and

(c) ~~revenue received~~ as services in-kind.~~;~~

~~(d) with EGAs.~~

G23.93 When an NPO receives ~~services~~donations in-kind ~~that are critical to the NPO's mission~~ but does not recognise those ~~services~~donations in-kind on receipt (whether as revenue, inventories or other assets) ~~(in accordance with paragraph G23.36(c)) because the value of the services cannot be reliably measured~~, the NPO shall ~~disclose:~~

(a) disclose a description of the ~~services~~donations in-kind received and their significance to the NPO;

(b) disclose an explanation of why the ~~services are critical to the NPO's mission~~donations in-kind have not been recognised – that is, why the NPO either:

 (i) has elected to use a permitted exception in accordance with paragraph G23.66, disclosing the exception or exceptions used; or

 (ii) is unable to reliably measure the value of the donations in-kind; and

(c) consider disclosing any other information it holds that would help users of the financial statements understand the benefits to the NPO to the NPO of the donations in-kind it receives. In particular, the NPO shall consider disclosing any quantitative information available to the NPO – for example, the number of hours or days of each type of service in-kind received. ~~However, a~~An NPO is not required to consider generating any quantitative information that it does not already hold for other purposes.

Grant revenue without ~~enforceable grant arrangements~~delivery obligations

~~G23.97 If an NPO elects to use the permitted exceptions in paragraph G23.37, the disclosures in G13.27 shall be made.~~

~~G23.98~~G23.1 ~~When an NPO receives services in-kind that are critical to the NPO's mission but does not recognise those services in-kind (in accordance with paragraph G23.36(c)) because the value of the services cannot be reliably measured, the NPO shall disclose:~~

~~(a) a description of the services received;~~

~~(b)~~(a) ~~an explanation of why the services are critical to the NPO's mission; and~~

~~(c)~~(a) ~~any quantitative information available to the NPO – for example, the number of hours or days of each type of service in-kind received.~~

~~G23.99 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 recognised as revenue.~~

~~G23.100~~G23.94 An NPO shall disclose the opening and closing balances of any receivables from grants, donations and similar income without delivery obligations~~EGAs~~ if not otherwise separately presented or disclosed.

Grant revenue with ~~enforceable grant arrangements~~delivery obligations

~~G23.101~~G23.95 Unless the amounts are presented separately in the Statement of Income and Expenses by applying other sections of INPAG, an NPO shall disclose the amount of **impairment** losses recognised for the reporting period on any receivables or ~~EGA delivery obligation~~ assets arising from an NPO's ~~EGAsgrant agreements~~delivery obligations, which the NPO shall disclose separately from other impairment losses for the reporting period.

~~G23.102~~G23.96 An NPO shall disclose:

(a) the opening and closing balances of receivables, ~~EGA~~ delivery obligation assets and ~~EGA~~ delivery obligation liabilities, if not otherwise separately presented or disclosed;

(b) revenue recognised in the reporting period that was included in the ~~EGA~~ delivery obligation liability balance at the beginning of the period; and

(c) revenue recognised in the reporting period from ~~EGOs~~ delivery obligations satisfied or partially satisfied in previous periods.

~~G23.103~~G23.97 An NPO shall disclose information about its ~~EGOs in EGAs~~delivery obligations, including a description of:

(a) when the NPO typically satisfies its ~~EGOs~~ delivery obligations (for example, upon delivery, as services are rendered or upon completion of service); and

(b) the significant grant payment terms.

~~G23.104~~G23.98 For ~~EGOs~~ delivery obligations that an NPO satisfies over time, the NPO shall disclose the methods it used to recognise revenue.

~~G23.105~~G23.99 An NPO shall provide a quantitative or qualitative explanation of the significant unsatisfied ~~EGOs~~ delivery obligations and when they are expected to be satisfied. However, an NPO need not disclose such information if the ~~EGO~~ delivery obligation is part of a~~n~~ ~~EGA~~ grant agreement that has an original expected duration of one year or less.

Appendix B – Donations in-kind Implementation Guidance and Illustrative Example

Implementation Guidance on low value items

When applying the permitted exceptions, how do you determine what is a low value item?

Similar to the way in which a threshold is set for the capitalisation of non-current assets, an NPO will need to set the threshold for low-value items. An NPO can set a threshold for all low-value items or for different categories of low-value items. Paragraph G23.67 requires an NPO to apply materiality in determining when an item is a low value item.

Donated items may be material based on their magnitude (that is, their financial amount) or their nature, where information about the type of item, the donor(s) or any other relevant factors may affect the decisions that users of the financial statements may make.

Items may be material individually or in aggregate. For example, the donation of a single laptop to an NPO may be immaterial, but the individual donation of 100 laptops (even if these occur at different times over the financial reporting period) may, in aggregate, be material.

Applying the permitted exceptions for low-value items results in the deferral of revenue recognition, rather than never recognising an item. It also results in an understatement of inventories. Determining whether items are material requires an NPO to exercise judgment.

Materiality to the financial statements

When assessing materiality to the financial statements an NPO needs to consider:

- impacts on the Statement of Income and Expenses from revenue not recognised in the correct accounting period;
- impacts on the Statement of Financial Position from the understatement of inventories as well as the impact on fund balances; and
- whether an item is clearly trivial.

The turnover of donated items will be an important factor in assessing the impact on the financial statements. If items are sold, distributed or used in a short period of time, the amount of revenue that is not recognised, and the amount by which inventories are understated, will be smaller. The longer the items are held by the NPO, the larger the amounts will be, increasing the likelihood that they are material.

Impact on the Statement of Income and Expenses

When assessing the impact on revenue, in a financial reporting period an NPO needs to consider the difference between:

- the amount that would have been recognised had revenue been recognised when the donated items were received; and
- the revenue actually recognised as a result of applying the exception.

This difference reflects the donated items received but not sold, distributed or used by the reporting date. An assessment about materiality is typically made with reference to the overall level of income of which revenue is a part. However, as income can fluctuate between years, it may be more appropriate to use expenses as a reference point. NPOs should discuss with their auditors their assessment of the overall level of materiality to be applied to the Statement of Income and Expenses. Having established a total level of materiality, NPOs should assess whether the aggregation of donated items in individual categories might impact overall materiality.

If permitted exceptions have been used in prior years, the NPO will have historical information about the difference between revenue that would have been recognised when the donated item was received and the revenue actually recognised. This prior year information will also be helpful in assessing the overall materiality of these items to revenue.

Materiality may also need to be assessed in the context of overall surplus or deficit. However, as the timing of grant revenue recognition results in fluctuations in surpluses and deficits, this may not be a significant factor.

Impact on the Statement of Financial Position

For inventories, the impact on the financial statements is the amount of unrecognised donated items that have not been sold, distributed or used at the end of the reporting period. The amount not recognised could include items that were not recognised from previous financial reporting periods as well as items donated in the current financial reporting period. An assessment of the materiality of the cumulative items not recognised in the Statement of Financial Position should be made in the context of an NPO's total assets. As with revenue, NPOs should discuss with their auditors their assessment of the overall level of materiality to be applied to total assets.

NPOs may also need to consider impacts on fund balances as well as the users of the financial information. Users may expect an NPO to maintain positive balances on its funds, particularly its unrestricted general fund. Where the difference between revenue recognised and the value of items not recognised leads to a fund moving from a positive to a negative balance (or negative to positive), this may be important. Also, if applying a permitted exception for low-value items could result in one primary user group making a different decision (for example, about future grant funding that is significant to the organisation), that may impact materiality judgements.

Trivial items

NPOs may be able to identify groups of donated items where a detailed materiality analysis is not required. This is because the donated items are clearly trivial. NPOs can set a threshold for clearly trivial items, which would typically be a very small amount of an NPO's total materiality. What is 'clearly trivial' should be agreed with the NPO's auditor.

Materiality by nature

The nature of the items that an NPO receives for sale, distribution or use will rarely be controversial, and as a consequence the circumstances that could result in donated items becoming material because of their nature are likely to be infrequent. However, this might arise where low-value donated items for sale, distribution or own use create a conflict with the NPO's mission. It might also arise if there is an operational dependency on particular donated items, even if they do not have a high value. An NPO should satisfy itself that nothing in the nature of donated items would be sufficient for primary users to make different decisions, as in these situations a low-value donated item could be material.

Illustrative Example on mission critical activities

Example x – Determining which services are critical to the NPO's mission

<u>Scenario</u>

An NPO's mission is to provide support to elderly members of the public in the area in which it operates. To meet its mission, the NPO provides a range of services, including a telephone support line, providing counselling and advice on a number of issues; respite residential care; and home visits.

Volunteers help the NPO deliver some of these services:

- The telephone support line is operated on a shift pattern. Each shift has one manager (a staff member) and up to ten call handlers (all volunteers).
- The NPO operates its own residential facility to provide the respite residential care. The facility has a full staff team to provide medical and personal care, catering and cleaning, Volunteers assist the staff team by reading to residents and assisting with various activities.
- A local accountant also volunteers to assist the finance staff with the preparation of the budget, monthly reports and the financial statements.

The NPO is seeking to determine which services in-kind it should recognise in its Statement of Income and Expenses.

<u>Analysis</u>

Telephone support service: The services in-kind provided by the call handlers directly involves delivering part of the NPO's mission. As all the call handlers are volunteers, this part of the mission could not be delivered without the services in-kind. The services in-kind provided by the volunteers are therefore critical to the NPO's mission and, subject to the NPO being able to measure the services reliably, revenue is recognised in the Statement of Income and Expenses.

Respite residential care: The services in-kind provided by the volunteers in the residential facility directly involves delivering part of the NPO's mission. However, respite care is provided by the NPO's staff. While the volunteers' services in-kind enhance the service and improve the experience for those in respite residential care, the NPO could provide the respite residential care service without the volunteers if necessary. Consequently, the services in-kind provided by the volunteers are not critical to the NPO's mission for the purposes of revenue recognition. The NPO elects to use the permitted exception in paragraph G23.66(c) and is therefore not required to recognise revenue in the Statement of Income and Expenses, although it may choose to do so if it can reliably measure the services provided by the volunteers.

Accountancy: The services in-kind provided by the accountant are do not directly involve delivering part of the NPO's mission. Although the services may be important to the NPO to ensure good financial management and compliance with legal requirements, they are not critical to the NPO's mission for the purposes of revenue recognition. The NPO elects to use the permitted exception in paragraph G23.66(c) and is therefore not required to recognise revenue in the Statement of Income and Expenses, although it may choose to do so. It will usually be possible to reliably measure professional services in-kind, as these services would be available at market rates.