



Technical Advisory Group Issue Paper

AGENDA ITEM: TAGFG05-01

21 January 2025 – 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 December 2024 meeting.
Purpose/Objective of the paper	To seek TAG members' views on the Secretariat's proposals for finalising the text of Section 23. This includes amendments made in response to the December 2024 TAG meeting.
Other supporting items	TAGFG04-01-Revenue
Prepared by	Paul Mason
Actions for this meeting	<p>Advise on the Secretariat's proposals in respect of:</p> <ul style="list-style-type: none">• Revised text for accounting for grants without delivery obligations, particularly regarding the definition of a delivery obligation and the approach to mission-critical services in-kind.• Revised text for accounting for grants with delivery obligations, including the location of text currently included in Application Guidance.• The approach to finalising Part II of Section 23, following the publication of the 3rd Edition of the <i>IFRS for SMEs</i> Accounting Standard.

Technical Advisory Group

Revenue

1. Introduction

- 1.1 At its December 2024 meeting, the TAG considered the Secretariat's proposals for finalising Section 23 *Revenue* of INPAG, focussing on the preamble to, and Part I of, Section 23. At that meeting, the TAG discussed the accounting for grants without delivery obligations in detail, and agreed the approach to be taken in accounting for grants with delivery obligations. The TAG also noted that the accounting for contracts with customers would follow the revised *IFRS for SMEs* Accounting Standard text.
- 1.2 This paper presents a revised draft of the text for Section 23. The text covering the preamble and grants without delivery obligations has been updated to reflect the discussion at the last TAG meeting, and the text for grants with delivery obligations has been updated in line with the approach discussed at the last TAG meeting.
- 1.3 This paper also presents draft text for Part II of Section 23. This text is based on a draft of the *IFRS for SMEs* Accounting Standard, and is therefore subject to change. However, this text has been included so that the Secretariat can seek TAG members' views on the development of this text, and to allow the TAG to consider the structure and format of Section 23 holistically.

2. Amendments to the preamble and Part I – grants without delivery obligations (paragraphs G23.1–G23.68)

- 2.1 The TAG discussed the text covering grants without delivery obligations at its December 2024 meeting, and provided a number of recommendations for the Secretariat to consider.
- 2.2 This paper presents the revisions that have been made in response to these recommendations. The Secretariat is grateful to those TAG members who provided comments on some of the revised drafting between the meetings.
- 2.3 The amendments to the text presented at the December 2024 meeting are as follows:



- The definition of a delivery obligation has been updated. The explanatory text has also been updated and will be included in Implementation Guidance in line with the discussions at the last TAG meeting (see [Appendix A](#)).
- The text explaining how Part I uses the term 'grant' has been relocated to the preamble (paragraph G23.6).
- Figure G23.1 (NPO provides services, goods or other assets for an amount not approximately equal to their value) and Figure G23.2 (NPO acquires services, goods or other assets for an amount not approximately equal to their value) have been removed from the core text and will be included in Implementation Guidance. Updates to these diagrams will be considered at a future TAG meeting. The diagrams are included in [Appendix B](#) for information.
- The guidance on what constitutes mission-critical services in-kind has been updated to reflect the discussion at the last TAG meeting (paragraphs G23.62–G23.68, reproduced in [Appendix C](#) along with the associated Illustrative Example)
- The decision tree illustrating how to apply Part I, included in Figure G23.3 (after paragraph G23.57), has been updated so that the 'Yes' arrow from the valid expectation box goes straight down to the Apply Section 36 box.

2.4 At the December 2024 meeting, some TAG members questioned whether the responses that did not support the proposal in ED 2 regarding mission critical services came from a particular group of stakeholders. This analysis is shown in [Appendix D](#). The only group where respondents were more likely to disagree with the proposal than agree with it were those respondents who did not specify their role. Reviewing the letters submitted, the Secretariat consider that two are likely to be individuals (one disagree, one no response) whereas the third (disagree) may be responding as an individual or as a director of an accounting or auditing firm.

Question 1: Do TAG members agree with the revised definition of a delivery obligation and the explanatory text? Is Implementation Guidance the appropriate location for the explanatory text?

Question 2: Do TAG members agree with the revisions to the draft text (paragraphs G23.1–G23.68) proposed by the Secretariat?

3. Amendments to Part I – grants with delivery obligations (paragraphs G23.69–G23.108)

- 3.1 At its December 2024 meeting, the TAG provisionally agreed with the Secretariat proposal to retain guidance on less common features of the five step model in Application Guidance. Having reviewed the material in the Application Guidance, the Secretariat have concluded that this would not be consistent with the approach being taken to Application Guidance more generally. Further, the topics covered are included in the core text in Part II of Section 23. Consequently, the guidance has been moved to the core text (paragraphs G23.89–G23.107).
- 3.2 TAG members noted that a holistic review of Section 23 would be required before any approach about the location of guidance could be confirmed. This paper provides updated drafting for Section 23 so that TAG members can undertake this review. The Secretariat has not yet completed its review of disclosures as part of a holistic review of Section 23 and Section 36. These will be provided to the TAG meeting in February.
- 3.3 The Secretariat is also proposing additional changes to the text covering accounting for delivery obligations. These changes result from the decision to adopt the delivery obligation terminology or arise as a consequence of the updates to the text of the *IFRS for SMEs Accounting Standard*.
- 3.4 The proposed changes are as follows:
- Terminology has been updated, with EGA replaced with grant agreement and EGO replaced with delivery obligation. The term delivery obligation was adopted when the focus of the accounting arrangements was changes from the agreement to the obligation; consequently, some additional redrafting has been required in some paragraphs.
 - ED 2 included separate guidance for accounting for grant agreements with a single delivery obligation (using current terminology). Some respondents had commented that this made the structure of Section 23 more complex and lengthened an already lengthy section. The Secretariat

proposes deleting this guidance and instead following the approach in the revised *IFRS for SMEs* Accounting Standard text of including guidance on when a step is not required under the relevant step of the five step model. This approach will also address comments from some respondents that the separate guidance in ED 2 had over-simplified the requirements.

- The guidance for applying the requirements in Part II for the more complex aspects of accounting for grants with delivery obligations has been updated to reflect the relocation of some guidance, and the revised structure and simplified wording in Part II, following the revisions to the text of the *IFRS for SMEs* Accounting Standard.

Question 3: Do TAG members agree with the revisions to the draft text in paragraphs G23.69–G23.108 proposed by the Secretariat?

Question 4: What are TAG members views on the relocation of material previously included in the Application Guidance?

4. Updated Part II (paragraphs G23.117–G23.202)

4.1 Part II of Section 23 is based on the wording in a draft of Section 23 of the *IFRS for SMEs* Accounting Standard. This deals with revenue from contracts with customers. This topic was not identified as a priority topic for INPAG, and consequently the wording in the *IFRS for SMEs* Accounting Standard has been incorporated with only minor modifications.

- Part II uses different terminology than the *IFRS for SMEs* Accounting Standard, referring specifically to NPOs rather than entities more generally.
- The scope section has been relocated to the preamble, as the scope applies to both Part I and Part II.
- The overview of the 5 step revenue recognition model is included in the preamble to this section, as the 5 step model is also used to recognise revenue from delivery obligations as these have characteristics in common with contracts with customers.

- The accounting for principal-agent arrangements is included in the preamble, as it applies equally to revenue from grants and donations and revenue from contracts with customers.
- 4.2 The wording of Section 23 of the *IFRS for SMEs* Accounting Standard has been updated since the IASB's 2022 Exposure Draft (ED), in part as a result of a plain English language review. The ED text was adopted in INPAG ED 2.
- 4.3 The revised wording has been incorporated into the latest draft of Section 23 of INPAG. The drafting is subject to change, as it is not the final version of the *IFRS for SMEs* Accounting Standard text, which is expected to be available shortly. This is in line with the agreed approach to developing INPAG.
- 4.4 In finalising the INPAG text, the Secretariat has not adopted the revised wording in respect of accounting for principal-agent arrangements (paragraphs G23.31–G23.34), instead retaining the wording from the ED. This is because the ED wording emphasised responsibility for fulfilling the promise, which is readily adaptable to grants and donations. The revised wording emphasises control of the goods and services to be transferred, which does not apply to all grants and donations. The revised text in the *IFRS for SMEs* Accounting Standard does not alter the underlying principles, and consequently, the Secretariat consider that retaining the wording from ED 2 with only minor amendments is appropriate.
- 4.5 In revising the text in the *IFRS for SMEs* Accounting Standard, the IASB has moved some less common requirements into Application Guidance. Part II has followed this approach.
- 4.6 ED 2 included Application Guidance on applying Part II to less complex contracts with customers. The Secretariat has reviewed this guidance following the relocation of the less common requirements to the Application Guidance, and has concluded that the guidance included in ED 2 is no longer required. Consequently, this guidance has been deleted.

Question 5: Do TAG members agree with the approach taken to the text for accounting for principal-agent arrangements in paragraphs G23.31–G23.34?

Question 6: Do TAG members have any other comments on the approach to updating Part II following the updates to the text of the *IFRS for SMEs* Accounting Standard (paragraphs G23.117–G23.202)?



January 2025

Appendix A – Definition of delivery obligation

Delivery obligation

Revised definition

A grant recipient's separately identifiable undertaking in a grant agreement to achieve a specified outcome, to carry out a specified activity, or to use or transfer distinct services, goods or other assets.

Explanatory text (to be included in Implementation Guidance)

Delivery obligations specified in the grant agreement must be:

- clearly defined;
- enforceable (that is, consequences or remedies associated with non-delivery must be enforceable by legal or equivalent means); and
- capable of being measured (that is, the achievement or progress towards achievement of delivery obligations must be capable of being measured).

Services, goods or other assets specified as delivery obligations may be used internally for a specified purpose or may be transferred to one or more service recipients.

Appendix B – Diagrams moved to Implementation Guidance

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

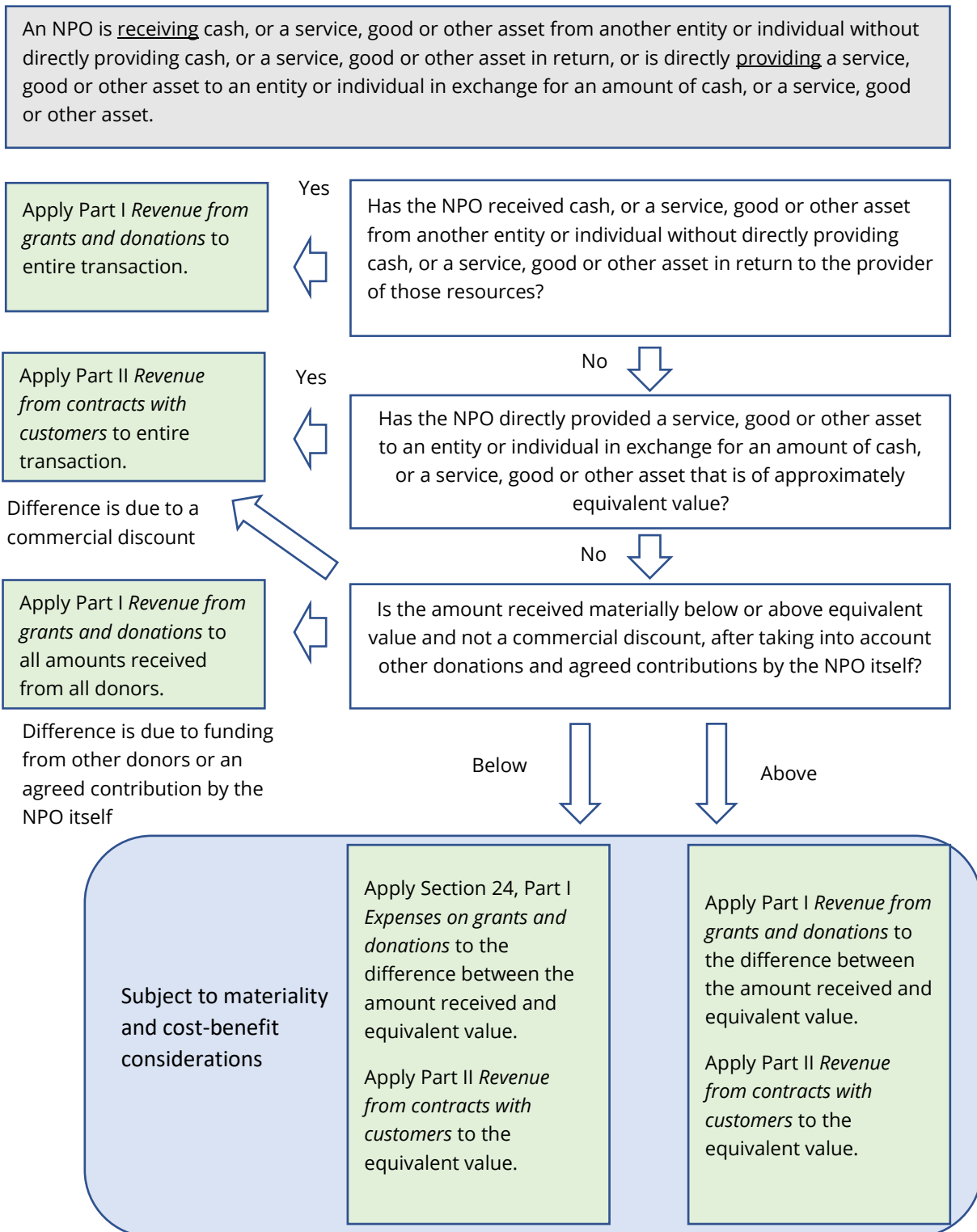
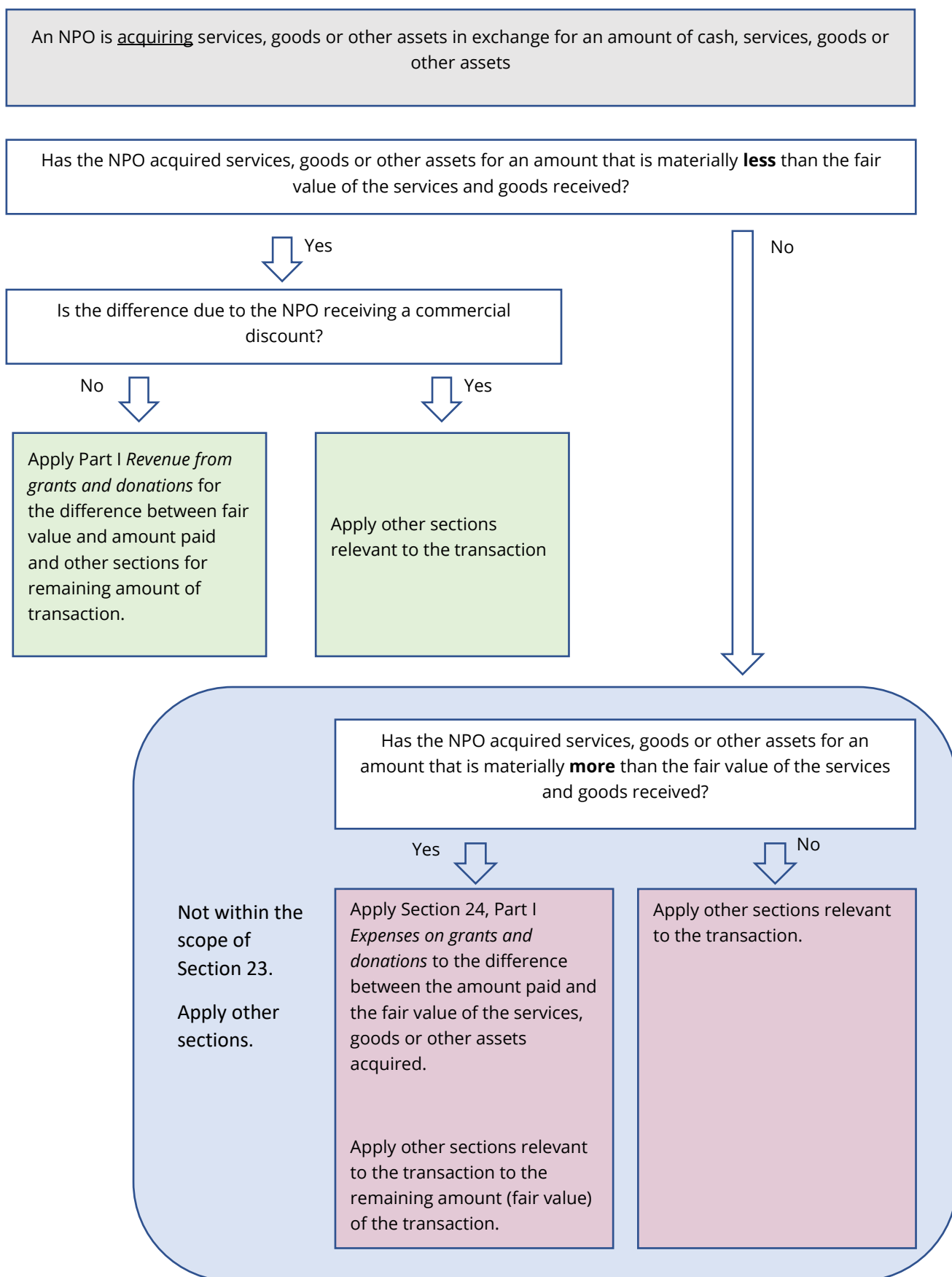


Figure G23.2: Decision tree illustrating when to apply Section 23 to the acquisition of goods, services or other assets



Appendix C – Guidance on mission critical services in-kind

Donations in-kind

- G23.62 Donations in-kind include donations of non-cash items such as property, plant and equipment, inventories and financial assets, and services such as volunteer time. Donations in-kind are recognised and measured in accordance with paragraphs G23.58–G23.59, except as outlined in paragraphs G23.63–G23.68.
- G23.63 NPOs may apply permitted exceptions to the general recognition and measurement requirements for revenue without delivery obligations. These exceptions are not permitted for donations in-kind provided to meet delivery obligations.
- G23.64 An NPO may elect to depart from the general recognition and measurement requirements by:
- (a) recognising revenue from low-value 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.
- G23.65 An NPO shall apply materiality in determining whether donated items are of low value.
- G23.66 Services in-kind that are critical to an NPO’s mission are those services in kind that are involved in the delivery of the NPO’s mission, and where all or a significant part of the overall mission could not be achieved without the receipt of the services in-kind.
- G23.67 When applying a permitted exception, the NPO shall apply that exception to all items within a class of **inventories**, other assets, or services in-kind.
- G23.68 Donations in-kind may only be recognised when they can be measured reliably. When donations in-kind are not recognised by an NPO, the NPO shall make the disclosures in paragraph G23.110.

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

Scenario

An NPO's overall 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, offering counselling and advice; 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 talk with and read to residents, and assist 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. This helps the NPO to comply with legal requirements.

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

Analysis

Telephone support service: The services in-kind provided by the call handlers involves directly delivering a significant 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 relates directly to a significant part of the NPO's mission. However, the actual 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, although the services in-kind provided by the volunteers are important and valuable to the residents, they are not considered critical to the NPO's mission for the purposes of revenue recognition.

The NPO may elect to use the permitted exception in paragraph G23.64(c) and not 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. If it does not recognise these services,

the NPO is required to make disclosures to describe the nature of these services, using both quantitative and qualitative data available.

Accountancy: The service in-kind provided by the accountant does not involve direct delivery of part of the NPO's mission, but it does help the NPO to comply with its legal requirements. If the NPO were not able to comply with its legal requirements, the NPO would arguably not be able to operate and fulfil its mission.

The NPO will need to use judgment in determining if the service provided by the accountant is critical to the NPO's mission. The key factor to consider is whether the NPO could comply with its legal requirements without the assistance of the accountant (that is, whether the finance staff have the capacity to comply with the legal requirements without the service provided by the accountant).

The NPO will need to decide whether it is appropriate to use the permitted exception in paragraph G23.64(c) based on the NPO's specific fact pattern. If an NPO recognises the time provided by the accountant, it will usually be possible to reliably measure professional services in-kind, as these services would be available at market rates. If the service in-kind is not recognised, the nature of the service will need to be disclosed along with available quantitative and qualitative information.



Appendix D – Analysis of responses to ED 2 regarding mission critical services by respondent’s role

Respondent	Agree	Disagree	Neither Agree or Disagree	No Response
Academic (4)	3	0	0	1
Accountant/Finance Officer (3)	2	0	1	0
Audit Partner (3)	2	0	1	0
Auditor (5)	4	1	0	0
CFO/Finance Director (4)	3	0	0	1
Consultant (3)	2	1	0	0
Non Response (3)	0	2	0	1
Other (1)	1	0	0	0
Other Director (9)	6	2	0	1
Professional institute (4)	3	0	0	1
Representative body (2)	1	0	0	1
Standard Setter (6)	4	0	1	1
Total (47)	31	6	3	7