



Practitioner Advisory Group

AGENDA ITEM: PAGCP01-10

December 5-6, 2019 – Nairobi, Kenya

Services In-Kind

Summary	Accounting for services in-kind has been identified as a specific issue for the not-for profit sector. This paper brings together material gathered from previous research.
Purpose/Objective of the paper	To allow PAG members to consider the nature of this issue, the accounting challenges it presents, current literature and potential ways forward. It also proposes text for inclusion in the Consultation Paper.
Other supporting items	PAGCP01 – 08 Approach to the Consultation Paper Development
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Actions for this meeting	Advise on: <ul style="list-style-type: none">• The description of the issue• The list of alternatives to address the issue• The proposed specific matters for comment
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Technical Advisory Group

Services In-Kind

1. Consultation Paper Draft

- 1.1 At the TAG meetings on October 3-4 and 4 November, the TAG considered papers for Volunteer Services In-Kind, which has now been renamed Services in-Kind. The text in part 2 of this paper takes account of the TAG's Advice and Requests, and has not yet been signed off by the TAG. The aim is for the text in Part 2 to be inserted directly into the Consultation Paper, subject to any drafting comments.

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

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

Question 3: Is the PAG aware of any other guidance on accounting for services in-kind issued by national standard setters or other regulatory bodies that should be included in the Consultation Paper?

Question 4: What are the PAG's views on the descriptions of the three alternatives, their respective advantages and disadvantages? Are there other alternatives that should be considered?

Question 5: What comments does the PAG have on the initial draft SMCs included in the paper?

2. Next steps

- 2.1 The text drafted in Part 2 will be included in the Consultation Paper subject to any further comments from the PAG and the TAG.



Part 2 - Draft Consultation Paper Text

Services In-Kind

1. Description of the issue

- 1.1 NPOs often benefit from the contribution of unpaid services in-kind in support of their activities. Services in-kind can be in the form of the use of assets, such as access to accommodation or equipment from other organisations, or it may be the donation of time and services from organisations or individual volunteers.
- 1.2 The issue is important in order to understand more fully the impact of services in-kind on the NPO operations (for example, the dependence on the entity on services in-kind to further its objectives) and to highlight the social capital that NPOs bring when they are able to leverage services in-kind. A consistent approach across similar NPOs would allow a more informed comparison of their operations and a more faithful representation of the income and expenses of the NPO.
- 1.3 Volunteers may donate their time for general activities that don't require specific qualifications or experience, for example spending time with those with disabilities, undertaking manual tasks such as environmental cleaning, tree planting or event logistics support. Alternatively volunteers may provide services by contributing their professional or trade skills. Examples include teachers committing to a period of time to teach at a school, a firm of accountants offering free technical time to an NPO or a professional musician offering a performance for no fee or a reduced fee.
- 1.4 Services in-kind might also be in the form of free or discounted access to equipment, such as earth moving equipment to construct an asset, discounted internet services or free use of a warehouse.
- 1.5 Placing a monetary value on services in-kind can present significant difficulties. For example, the services of a volunteer who ordinarily resides in one jurisdiction may have a different value to those same services in the jurisdiction in which the services are being provided or accommodation space may be offered in a more expensive location, which is over and above that needed by the NPO.

2. Financial Reporting challenges raised

- 2.1 In the first instance there are considerations about whether the benefit from the provision of services in-kind is consumed by the NPO immediately, in which case the services would be recognised as both income and an expense immediately, as the income earned is equal to the



International Financial Reporting for Non Profit Organizations

service provided, and at the same time, there is a corresponding expense for the utilisation of those services.

- 2.2 These types of service may result in an asset or income¹ for an NPO, as long as the services provided are under the control of the NPO, arise as a consequence of something that happened in the past (past event) and the NPO expects to get a future benefit to further its objectives. This would apply even if that future benefit is used straight away.
- 2.3 Services in-kind can be used to help with the construction of assets. Similarly, these could also meet the criteria of an 'asset' as outlined in paragraph 2.2. These would not be consumed immediately and raise questions about how they should be recognised in financial statements.
- 2.4 Services in-kind raise accounting challenges because although they might meet the definition of an asset, whether consumed now or later, they may not meet all the recognition criteria especially where it is difficult to establish a reliable measurement for these services. These measurement difficulties arise for multiple reasons as outlined in paragraph 1.4. In addition some services in-kind may be provided at a reduced cost rather than for free, with effectively a paid element and a service in-kind element.
- 2.5 Services in-kind may be more easily measured where comparable services exist on which to place reliance as a basis for cost measurement (i.e. where there are similar services with observable market prices). However, this becomes more complex where services are provided between jurisdictions that ascribe different values to the same service or where the service provided exceeds the needs of an NPO. For example, a health worker from North America may provide free health services for a period to a country in Africa. There are observable market prices in both locations, but there are questions as to which should be used to fair value the service in-kind.
- 2.6 The costs of preparing this information maybe also be disproportionate to the benefits where the entity is small and does not have the resources to provide the information
- 2.7 There are also questions as to whether transactions associated with services in kind should be considered to be 'restricted' because the services have been provided for a particular purpose. In a number of jurisdictions NPO transactions are split between 'restricted' and 'unrestricted' (as defined by those jurisdictions). Any proposals for services in-kind should be consistent with the treatment of gifts in-kind, which is considered further under issue 11 '*Financial Statement Presentation*'.

¹ Paragraph 2.41 of IFRS for SMEs sets out the recognition criteria for income with the recognition of income resulting directly from the recognition and measurement of assets and liabilities.



International Financial Reporting for Non Profit Organizations

3. Relevant International guidance

- 3.1 Neither IFRS nor IFRS for SMEs specifically address non-exchange transactions such as services in-kind. However, they do provide general recognition criteria for assets, liabilities, income and expenses, and the measurement bases to be adopted when recognition takes place.
- 3.2 Within the International Public Sector Accounting Standards (IPSAS), the accounting treatment of services in-kind is specifically addressed in *IPSAS 23, Revenue from Non-Exchange Transactions (Taxes and Transfers)*². Under IPSAS 23 an entity may, but is not required to, recognise services in-kind as revenue and as an asset.
- 3.3 IPSASB is currently reviewing its standards on revenue including revenue from non-exchange transactions following the issue of *IFRS15 Revenue from Contracts with Customers*. IPSASB is currently scheduled to issue its Exposure Draft in Quarter 1 2020. Services in-kind and related disclosures are being considered as part this Exposure Draft. Currently, IPSASB is likely to strengthen the steer towards recognition without making it mandatory.

4. National-level guidance

- 4.1 Annex A shows that there are similarities in the treatment of volunteer time in national-level guidance. There is alignment across these jurisdictions about the basis for recognition, which are consistent with international standards around the definition of an asset. Differences are principally concerned with the level of choice about recognition of services in-kind and disclosure requirements. All agree that where volunteer time is recognised it should be measured at fair value although differences may exist as to what is meant by fair value.
- 4.2 Recognition is permitted in certain circumstances, but not required across a number of jurisdictions. In other jurisdictions, recognition is required where defined criteria are met.
- 4.3 In some jurisdictions recognition of services provided from a trade or profession is required, whilst recognition of general volunteering (not requiring a specific trade or skill) is prohibited unless the services are being used to create or enhance a tangible asset. Guidance about potential differences in types of volunteering time is not drawn out in other jurisdictions.
- 4.4 More generally, some jurisdictions specifically require recognition of services in-kind if those services are used to create or construct assets. Other jurisdictions are silent on this issue in their guidance, but the application of relevant standards is likely to achieve the same outcome.

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



International Financial Reporting for Non Profit Organizations

5. Alternative financial reporting treatments

- 5.1 The alternative treatments that could be adopted for this issue, together with the associated advantages and disadvantages are set out below. In all alternatives proposed it is assumed that the accounting policy would be disclosed in the notes to the financial statements.
- 5.2 The alternative of not recording and/or disclosing volunteer time at all is not proposed given the significant role that volunteers play in the not-for-profit sector.
- 5.3 Alternative three is less robust from a technical accounting perspective. For that reason the Technical Advisory Group has advised that this alternative should not be pursued, but that feedback should be requested, in order to understand if this has significant support from stakeholders, and, if so, the basis for that support.
- 5.4 The alternatives address the accounting for individual transactions and not the range of other practical implications that are likely to emerge, for example the potential impact of recognition on regulatory thresholds such as audit or tax. As these will be jurisdiction specific they are not at this stage considered further, but may be a feature of responses to the Consultation Paper.



International Financial Reporting for Non Profit Organizations

	Description	Advantages	Disadvantages
<p>Alternative 1</p> <p>Require recognition and disclosure</p>	<ul style="list-style-type: none"> Require recognition of services in-kind at fair value where they meet defined criteria and can be reliably measured. Recognition criteria that could enable the distinction between generic services and those requiring specific skills or expertise. Require the basis for fair value measurement to be disclosed. Require disclosure of narrative information in the notes to the accounts that could include the role, nature and type of services and, where practical, an estimate of the amount of services in-kind provided with information about the extent to which the NPO relies on these services for operational delivery. The disclosures should distinguish between those services that have been recognised and those that have not. 	<ul style="list-style-type: none"> Enhances comparability of financial information as it would not permit a choice of recognition or non-recognition. Additional guidance on recognition criteria. Not inconsistent with IFRS and IPSAS. Standardisation of disclosures. Provides information useful to understanding the operations of the NPO including the scale of its operations and its reliance on services in-kind. 	<ul style="list-style-type: none"> The cost may outweigh the benefit, particularly for smaller entities. Time/cost of preparing and auditing accounting information and disclosures.
<p>Alternative 2</p> <p>Permit recognition and require disclosure</p>	<ul style="list-style-type: none"> Permit recognition of services in-kind at fair value where they meet defined criteria and can be reliably measured. Recognition criteria that could allow the distinction between generic services and those requiring specific skills or expertise. Require the basis for fair value measurement to be disclosed. Require disclosure of narrative information in the notes to the accounts that could 	<ul style="list-style-type: none"> Pragmatic option particularly for smaller entities. Additional guidance on recognition criteria. Consistent with IPSAS Standardisation of disclosures. Encourages application over time, without being excessively onerous. 	<ul style="list-style-type: none"> Whenever there is a choice of accounting policy there will be non-comparability among entities. Inconsistent with IFRS regarding the recognition of assets, although IFRS does not address specifically non-exchange transactions.



International Financial Reporting for Non Profit Organizations

	<p>include the role, the nature and type of services and, where practical, an estimate of the amount of services in-kind provided with information about the extent to which the NPO relies on these services for operational delivery. The disclosures should distinguish between those services that have been recognised and those that have not.</p>	<ul style="list-style-type: none"> • Provides information useful to understanding the operations of the NPO including the scale of its operations and its reliance on services in-kind. 	<ul style="list-style-type: none"> • Time/cost of preparing and auditing accounting information and disclosures.
<p>Alternative 3</p> <p>Only require disclosure of services in-kind</p>	<ul style="list-style-type: none"> • Disclosure only of services in-kind within the notes to the accounts. • The disclosures could provide information to users about the nature and type of volunteer services and the degree to which the entity relies on these services for operational delivery. • Include details on the quantum of services in-kind provided by type of volunteers. 	<ul style="list-style-type: none"> • Not inconsistent with IPSAS. • Standardisation of disclosures. • Disclosures are audited. • Provides information useful to understanding the operations of the NPO including the scale of its operations and its reliance on services in-kind. 	<ul style="list-style-type: none"> • May practically result in Alternative 1 or 2 as entities could recognise if criteria in extant standards are met, so may have no value as a separate alternative. • Time/cost of preparing and auditing disclosures. • Inconsistent with IFRS.



International Financial Reporting for Non Profit Organizations

Specific Matters for Comment

Do you agree that the list of alternative treatments presented is complete? If not, please describe your additional alternative or amendments to the proposed alternatives, and explain why they should be considered.

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

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

Do you have any views on recognition criteria and whether only certain services in-kind might be expected to meet the criteria?

Are there any practical considerations or questions that arise in implementing your preferred option?

[Draft generic questions for further discussion]



International Financial Reporting for Non Profit Organizations

Annex A – Volunteer services in kind – International information

	IFRS/IPSAS	UK	Australia	New Zealand	Canada	USA	France	Colombia
<p>Alternative 1: Require recognition of services in kind at fair value where it meets defined criteria and can be reliably measured.</p>	<p>Recognition and measurement concepts consistent with IFRS for SMEs</p> <p>IPSAS 23 permits this. Entities are encouraged to disclose the nature and type of major classes of services in-kind received including those not recognised under IPSAS 23.</p>	<p>Volunteer services which a charity would otherwise have purchased are recognised at the value that would have been paid in an open market.</p> <p>Charities are required to include a description of the role played by unskilled volunteers and provide an indication of the nature of their contribution in a note to the accounts.</p>	<p>Government bodies³ recognise volunteer services at fair value if they can be reliably measured and if they would have been purchased if they had not been donated.</p> <p>Entities are encouraged to disclose narrative information about the entity's dependence on volunteer services it receives including those not recognised.</p>	<p>Volunteer services that are used to construct an asset are recognised at the fair value.</p> <p>Entities are encouraged to disclose the nature and type of major classes of services in-kind received, including those not recognised.</p>		<p>Volunteer services that either create or enhance a non-financial asset or require skilled labour that would need to have been purchased if not provided by donation. Recognition is at fair value.</p> <p>All entities are required to disclose services, including the programs or activities benefitting, regardless of whether they are recognised.</p>		As per IFRS for SMEs

³ Includes local government, government departments, general government sectors (GGS) and whole of governments



International Financial Reporting for Non Profit Organizations

<p>Alternative 2: Permit recognition of services in-kind at fair value where it meets defined criteria and can be reasonably measured.</p>	<p>IPSAS 23 – as above.</p> <p>Recognition and measurement concepts consistent with IFRS for SMEs but the standard does not have optionality</p>		<p>Any NPO can recognise volunteer services at fair value if they can be measured reliably (including those public sector entities listed in the paragraph above) regardless of whether the services would have been purchased if they had not been donated.</p> <p>Entities are encouraged to disclose narrative information about the entity's dependence arising from volunteer services it receives including those not recognised.</p>	<p>Tier 1 and Tier 2 entities may recognise volunteering services that they control and which can be reliably measured at fair value.</p> <p>For Tier 3 entities recognition of volunteering services is optional, with a requirement for information about significant services received.</p>	<p>Volunteering services may be recognised at fair value if they can be measured reliably, are in the normal course of business, would otherwise have been purchased or have been used to construct an asset.</p>		<p>Volunteer services that are significant to the entity and can be reliably measured are recognised.</p> <p>An entity is required to disclose the rationale and the nature and importance of the service that are recognised due to practical and other reasons.</p>	
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International Financial Reporting for Non Profit Organizations

<p>Alternative 3: Disclosure only of services in-kind within the notes to the accounts.</p>	<p>IPSAS 23 as above.</p> <p>IFRS for SMEs requires recognition if the definition of an asset is met.</p>	<p>See above for disclosures</p>	<p>See above for disclosures</p>	<p>See above for disclosures</p>	<p>See above for disclosures</p>	<p>See above for disclosures</p>	<p>See above for disclosures</p>	<p>See above for disclosures</p>
<p>Accounting references</p>	<p>Paragraphs 6.18 and 6.19 of Charities SORP (FRS102)</p> <p>Example at: http://www.charitycorp.org/media/632825/arts_theatre_trust_frs102.pdf</p> <p>FRS102 paragraphs PBE34.72 and 24.73.</p>	<p>AASB 1058 <i>Income of not for profit entities</i></p> <p>Illustrative Example 12 of AASB 1058 gives an example of accounting for volunteer services.</p>	<p>Tier 1 and Tier 2 PBE Standards</p> <p>Paragraphs 98-103 and B21 of PBE IPSAS 23 Revenue from Non-Exchange Transactions.</p> <p>Tier 3 Simple Format Reporting paragraph A68 of Public Benefit Entity Simple Reporting – Accrual (Not-for-profit).</p>	<p>Private Sector NPOs: Part III of the CPA Canada Handbook Section 4410 <i>Contributions – revenue recognition</i>.</p> <p>Public Sector NPOs: CPA Canada Public Sector Accounting Handbook PS4210 <i>Contributions – revenue recognition</i>.</p>	<p>Creation or enhancement of assets: ASC 958-605-25-16</p> <p>Contributed services: ASC 958-605-50-1).</p> <p>Examples of contributed services can be found in Examples 7-11 of ASC 958-605-55 (paragraphs 52-68).</p>			<p>IFRS for SMEs, (section 2.27 - recognition of assets, liabilities, income and expenses).</p> <p>IPSAS 23; <i>Revenue from non-exchange transactions (taxes and transactions)</i> paragraphs 98-103</p>