



## Technical Advisory Group

### AGENDA ITEM: TAGCP01-08

October 3-4, 2019 - London, United Kingdom

### Specific Issue – Volunteer Services In-Kind

<b>Summary</b>	Accounting for volunteer time has been identified as a specific issue for the not-for profit sector. This paper brings together material gathered from previous input via IFASS and the 2014 CCAB report.
<b>Purpose/Objective of the paper</b>	To allow TAG members to consider the nature of the issue, the completeness of information about the issue and potential ways forward.
<b>Other supporting items</b>	TAGCP01 – 06 Approach to the Consultation Paper Development.
<b>Prepared by</b>	Karen Sanderson

<b>Actions for this meeting</b>	Advise on: <ul style="list-style-type: none"><li>• The description of the issue</li><li>• The list of options to address the issue</li><li>• Links to other international standard development, national standards or other guidance</li><li>• The need for any further input</li></ul>
---------------------------------	---



# Technical Advisory Group

## Specific Issue – Volunteer Services In-Kind

### 1. Description of the issue

- 1.1 NPOs often rely on the contribution of unpaid volunteers in carrying out their activities. These volunteers can be provided as part of their trade or profession or can be general volunteering such as street collections or charity events.
- 1.2 Placing a monetary value on the contributions of general volunteers presents significant difficulties. For example, charities might not employ additional staff were volunteers not available, or volunteers might complement the work of paid staff rather than replace them. These factors, together with the lack of a market comparator price for general volunteers, may make it impractical for their contribution to be measured reliably for accounting purposes.
- 1.3 Trade or professional services may be more easily measured based on comparable services being provided in the market place. For example, the standard in the United States gives examples of services requiring specialised skills as those provided by *'accountants, lawyers, nurses, plumbers, teachers and other professionals and craftsmen'*<sup>1</sup>
- 1.4 Volunteer services are considered services in-kind as they represent services provided by individuals to NPOs in a non-exchange transaction i.e. the volunteers are not paid for their services. Volunteer services in-kind raise accounting issues because they may or may not meet the definition of an asset (i.e. the entity controls a resource from which it is likely to obtain future economic benefits or service potential), it may be difficult to obtain reliable measurements, the benefit may be consumed immediately or it could be used to construct an asset.

### 2. Current status

- 2.1 As part of the work performed by the IFASS Working Group, information has been collected about the accounting recognition, measurement and disclosure requirements of a number of jurisdictions. Annex A contains a summary of the positions in Australia, New Zealand, the USA, Canada and the UK. This includes references to specific standards/guidance and where they exist illustrative guidance.

---

<sup>1</sup> Examples 7-11 of ASC 958-605-55 (paragraphs 52-68).



## International Financial Reporting for Non Profit Organizations

- 2.2 There are significant similarities in the treatment of volunteer time but also some differences. These differences are principally concerned with the level of choice about recognition of volunteer time and disclosure requirements. All agree that where volunteer time is recognised it should be measured at fair value and there are some differences in guidance about what is meant by fair value.
- 2.3 In the UK recognition is required if services are supplied by a volunteer as part of their trade or profession, but recognising the contribution of general volunteers is prohibited. The amount recognised is the amount that the entity would pay in the open market for to provide a benefit to the entity equivalent to the donated time. The value to the entity may be lower than, but cannot exceed, the price the entity would pay in the open market for the item. Entities must include a narrative description of 'the role played by general volunteers and provide an indication of the nature of their contribution in a note to the accounts'.
- 2.4 In Australia, entities may elect to recognise volunteer services if the fair value of those services can be measured reliably. The Board considered not-for-profit entities should be able to elect to recognise volunteer services with a fair value that can be measured reliably even if those services would not have been purchased if they had not been donated. Entities are required to disclose 'recognised volunteer services' as a separate category of income. Entities are also encouraged to disclose narrative information about the entity's dependence arising from volunteer services it receives, including those not recognised.
- 2.5 However, AASB 1058 *Income of Not-For-Profit Entities*, which sits alongside AASB 15 *Revenue from Contracts with Customers*, requires local government, government departments, general government sectors and whole of government to recognise volunteer services as income (or where appropriate, a contribution by owner) if the fair value of the services can be measured reliably and if the services would have been purchased if they had not been donated.
- 2.6 In New Zealand the guidance differentiates between Tier 1 and Tier 2 entities and Tier 3 entities which follow a Simple Format Reporting Standard for not-for-profit entities. Tier 1 and Tier 2 bodies, they may, but are not required to, recognise services in-kind as revenue and as an asset. In order to recognise these services the entity must:
- Have control over the services; and
  - The fair value of the services can be measure them reliably.
- 2.7 Where services in-kind are utilised to construct an asset, the amount recognised in respect of services in-kind is included in the cost of the asset being constructed. All volunteer time is measured at fair value. Entities are encouraged to disclose the nature and type of major classes of services in-kind received, including those not recognised. This relevant standard is consistent with IPSAS 23.
- 2.8 For Tier 3 bodies recognition is optional. Entities may, but are not required to record services received in kind as revenue. Volunteer time where included is



## International Financial Reporting for Non Profit Organizations

recognised at fair value. Entities are, however, required to provide information about significant services received in kind in the notes to the performance report. This can include a quantification of the contributions from volunteers in terms of hours or full-time staff equivalents (this figure may be estimated, and noted as such if this is the case).

- 2.9 The guidance in Canada is similar for private and public sector not-for-profit entities. An entity may, but is not required to, recognise contributed services as revenue. In order to recognise contributed services the services must meet the following criteria:
- The fair value can be reasonably estimated; and
  - The services are used in the normal course of the organisation's operations and would have otherwise been purchased.
- 2.10 Volunteer time where included is recognised at fair value. Fair value, at the date of contribution is determined in relation to the purchase of similar services. Where the services are being utilised to construct or develop an asset, the amount recognised is included in the cost of the asset being constructed. Entities are required to disclose the nature and amount of those services recognised.
- 2.11 In the United States, recognition is required where the services supplied by volunteers meet either of the following conditions:
- They create or enhance non-financial assets
  - They require specialised skills; are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.
- 2.12 If the services do not meet these criteria, they are not to be recognised. Donated time is measured at the fair value. Where the services are being utilised to create or enhance a non-financial asset, the amount recognised can be the fair value of the asset or of the asset enhancement resulting from the service. The fair value of the services should be used for the measure regardless of whether the NFP could afford to purchase the services at their fair value.
- 2.13 All entities are required to disclose contributed services regardless of whether they are recognised as revenue. Entities must describe the programs or activities for which those services were used, including the nature and extent of the contributed services received for the period and the amount recognised as revenue for the period.
- 2.14 In France, volunteers are recognised where their services are significant to the entity and the value of the services can be estimated. The valuation method is required to be disclosed. An entity is required to disclose the rationale and the nature and importance of the services which are recognised due to practical and other reasons. Presentationally, these contributions are shown at the bottom of the income statement as revenues and expense of the same amount.

**Question 1: Does this summary, together with Annex A, accurately reflect the current national standards/guidance? Is the TAG aware of any other guidance**



**on accounting for volunteer time issued by national standard setters or other regulatory bodies that should be included in the Consultation Paper?**

**3. Current developments**

- 3.1 The accounting treatment of volunteer time is covered in *IPSAS 23, Revenue from Non-Exchange Transactions (Taxes and Transfers)*<sup>2</sup>. Under IPSAS 23 an entity may, but is not required to, recognise services in-kind as revenue and as an asset. IPSAS 23 recommends (paragraph 108) disclosure of the nature and type of services in-kind received during the reporting period including those not recognised. IPSAS 23 considers the ability to control resources as well as the ability to reliably measure services provided in reaching its conclusion.
- 3.2 IPSASB is currently viewing its standards on revenue including revenue from non-exchange transactions following the issue of *IFRS 15 Revenue from Contracts with Customers*. The current IPSAS exchange revenue standards (*IPSAS 9, Revenue from Exchange Transactions* and *IPSAS 11, Construction Contracts*) are aligned with IASB standards that have been superseded by the publication of *IFRS 15 Revenue from Contracts with Customers*. This is providing the IPSASB with an opportunity to replace these standards. In addition, the approaches in IFRS 15 have acted as an impetus for the IPSASB to consider its approach to non-exchange revenue transactions and to address practical issues that have emerged in the application of IPSAS 23.
- 3.3 IPSASB issued a Consultation Paper relating to revenues and non-exchange expenses in 2017, which raised questions about the current treatment in IPSAS 23 and whether it should be retained or amended. 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.

**Question 2: What is the TAG's view about the extent to which these current developments might aid the discussion or resolve the issue? How should this be reflected in the Consultation Paper?**

**4. Reporting options**

- 4.1 The main points for consideration are the existence of a reliable measurement basis, whether the entity has control over the services, the valuation methods if a reliable measurement basis exists and disclosure requirements.
- 4.2 An options analysis as set out below, based on the current treatments across jurisdictions and the proposals emerging from the current work of IPSASB:

---

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



# International Financial Reporting for Non Profit Organizations

	<b>Recognition</b>	<b>Measurement</b>	<b>Disclosures</b>
General Volunteers (see options 1)	a) Leave the judgement to the accounts preparer based on guidance provided: or b) Recommend that general volunteers are not recognised as it is unlikely that they can be reliably measured: or c) a combination of a) and b) where there is a recommendation but also a choice.	As below if recognised but it is likely that it will not be practical to reliably measure these services.	Entities should provide narrative description in the notes to the accounts of the role played by volunteers and provide an indication of the nature and type of major classes of services in-kind of their contribution irrespective of whether they are recognised in the accounts.
Trade and Professional Volunteers (options 1)	a) Leave the judgement to the accounts preparer based on guidance provided: or b) Recommend that trade and professional volunteers are recognised as it is likely that they can be reliably measured: or c) a combination of a) and b) where there is a recommendation but also a choice. d)	Fair value - based on the amount that the entity would pay in the open market for a benefit to the entity equivalent to the donated time. The value to the entity may be lower than, but cannot exceed, the price the entity would pay in the open market for the item.	
All volunteers (option 2)	Allow entities to choose whether to recognise volunteer services at all		
All volunteers (option 3)	Recommend that these are not included at all in accounts	Not applicable	

4.3 Based on this analysis three lead options have been developed. An option for not recording or disclosing volunteer time is not being proposed given the significant role that volunteers play in the not-for-profit sector. The three lead options are as follows:



# International Financial Reporting for Non Profit Organizations

**Option 1:** Recommend that volunteer time is **always** recognised at fair value where it meets defined criteria and can be reliably measured. The Guidance would recommend the approaches to general volunteers and trade and professional volunteers. The Guidance would also set out the basis of the fair value measurement. The accounting policy for volunteer time should be disclosed alongside narrative disclosures about the role of volunteers, the nature and type of volunteer services including, where practical an estimate of the quantum of services in kind provided.

**Option 2:** Allow entities to **choose** whether to recognise volunteer time whether or not it can be reliably measured. Irrespective of whether an entity recognises volunteer time, the accounting policy for volunteer time is to be disclosed alongside narrative disclosures about the role of volunteers, the nature and type of volunteer services including, where practical an estimate of the quantum of services in kind provided. Where an entity chooses to recognise volunteer time it would be recommended to recognise it at fair value where it meets defined criteria and can be reliably measured. Guidance will recommend the approach to general volunteers and trade and professional volunteers. The Guidance would also set out the basis of the fair value measurement.

**Option 3:** Recommend that volunteer time is **not recognised** at all within the accounts. The accounting policy for volunteer time would be disclosed alongside expanded narrative disclosures providing 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. This would include details on the quantum of services in kind provided by type of volunteer services.

**Question 3: Does the TAG agree that the above three options should be included in the Consultation Paper?**

## 5. Next steps

- 5.1 To ensure that the Consultation Paper most accurately reflects the issues being experienced globally on accounting for volunteer time, TAG members are requested to ensure that the guidance in their jurisdictions is correctly reflected.
- 5.2 The options have been drawn from a limited number of jurisdictions and these may not be representative of accounting treatments embedded in Standards and guidance across the world. Further information may be required to test that the agreed options take account of the issues experienced across a wider set of jurisdictions.
- 5.3 The options don't define things such as fair value, types of volunteer groups, presentation in the financial statements, scope of disclosures or provide criteria to assist in assessing the ability to reliably measure the services provided. These are proposed to be developed following the Consultation Paper and included as appropriate as part of the Exposure Draft.








## International Financial Reporting for Non Profit Organizations

**Question 4: What specific input should be sought from the PAG about the proposed options?**

September 2019



## Annex A – Approach to Recognition and Measurement of volunteer time

<p><b>Canada</b> </p> <p><b>Private Sector NFPOs</b></p> <p>This is covered in paragraphs 16-18 of Section 4410 Contributions- Revenue Recognition (<i>see attached Section</i>).</p> <p>An NFPO can choose to recognize contributed materials and services only when a fair value can be reasonably estimated and when those materials and services are used in the normal course of the NFPOs operations and would otherwise be purchased.</p> <p>Common practice is to not recognize contributed services (i.e. volunteer time).</p> <p><b>Public Sector NFPOs</b></p> <p>Under Public Sector Accounting (PSA) Handbook, the guidance is similar to Part III of the CPA Handbook</p>	<p><b>New Zealand</b> </p> <p><b>Tier 1 and Tier 2 PBE Standards</b></p> <p>An entity may, but is not required to, recognise services in-kind as revenue and as an asset</p> <p>This is covered under paragraphs 98-103 and B21 of <a href="#">PBE IPSAS 23 Revenue from Non-Exchange Transactions</a>.</p> <p><b>Tier 3 Simple Format Reporting Standard – Accrual (NFP)</b></p> <p>Entities are not required to (but may if they wish) record services received in kind as revenue.</p> <p>This is covered under paragraph A68 of <a href="#">Public Benefit Entity Simple Format Reporting – Accrual (Not-for-profit)</a>.</p>	<p><b>United Kingdom</b> </p> <p>The contribution of general volunteers must not be included as income in charity accounts. However, charities must include a description of the role played by general volunteers and provide an indication of the nature of their contribution in a note to the accounts.</p> <p>This is covered under paragraphs 6.18 and 6.19 of <a href="#">SORP (FRS 102)</a>.</p> <p>An example of how this is accounted for in a set of example accounts can be found in Page 22 [Note 4] in the following set of accounts: <a href="http://www.charitySORP.org/media/632825/arts_theatre_trust_frs102.pdf">http://www.charitySORP.org/media/632825/arts_theatre_trust_frs102.pdf</a></p>	<p><b>USA</b> </p> <p>ASC 958-605-25-16 states that contributed services are recognized only if the services create or enhance nonfinancial assets or if the services require specialized skills. Such services are recognized at the fair value of services received or at the fair value of the asset or asset enhancement resulting from the services (ASC 958-605-30-1). All contributed services must be disclosed regardless of whether the services received are recognized as revenue in the financial statements (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><b>All Codification references mentioned below can be found by clicking <a href="#">here</a> and creating a basic account</b></p>	<p><b>Australia</b> </p> <p>AASB 1058 <i>Income of Not-for-Profit Entities</i> sets out the accounting recognition and measurement criteria for volunteer services in paragraphs 18-22. Not-for-profit entities may, as an accounting policy choice, elect to recognise volunteer services if the fair value of those services can be measure reliably. AASB 1058 does not specify the method to reliably determine the fair value.</p> <p>Illustrative Example 12 of <a href="#">AASB 1058</a> gives an example of accounting for volunteer services.</p>
--	--	--	---	---