International Financial Reporting for Non Profit Organizations

# Technical Advisory Group

AGENDA ITEM: TAGCP01-10
October 3-4, 2019 - London, United Kingdom

## Specific Issue – Donated Assets (Capital)

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| **Summary** | Accounting for donated capital assets has been identified as a specific issue for the NPO sector. This paper brings together material gathered from previous input via IFASS and the 2014 CCAB report. |
| **Purpose/Objective of the paper** | To allow TAG members to consider the nature of the issue, the completeness of information about the issue and potential ways forward. |
| **Other supporting items** | TAGCP01 – 06 Approach to the Consultation Paper Development. |
| **Prepared by** | Karen Sanderson |

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| **Actions for this meeting** | Advise on:<br>• The description of the issue<br>• The list of options to address the issue<br>• Links to other international standard development, national standards or other guidance<br>• The need for any further input |

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## Specific Issue – Donated Assets

### 1. Description of the issue

1.1 NPOs are often the beneficiaries of donated capital assets. Some of these assets are provided for use in ongoing operations without stipulation as to how they must be used. However, there may be times when there are stipulations on how an asset may be used and/or assets might be provided for a defined period. In these cases there are potential differences in how such stipulations are treated, implications for the valuation of the assets, consequential depreciation charges and related disclosures.

1.2 The 2014 CCAB[1] report in section 2.5.2.1 raises concerns about the decision usefulness of GPFR where movements in assets and liabilities for capital items pass through revenue and expenditure statements, with the possibility that excess revenue may be misconstrued by users.

1.3 This paper does not specifically address revenue recognition issues associated with the recognition of donated capital assets. This will be the subject of a separate issue paper and build on the discussion in Paper 9 Restricted Funds (donations with stipulations).

1.4 In addition, although there are references to a number of related issues in the status updates from jurisdictions below and in Annex A, this issue paper is not intended to specifically consider the following:

- Heritage assets
- Donations received or donated services which are used in the construction of a tangible fixed asset
- Assets which have been acquired for consideration that is below market but is more than nominal.
- Intangible assets.
- Where a charity is given use of a property for a nominal rent

### 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. In addition to the information

[1] CCAB – International financial reporting for the not-for-profit sector - http://www.ccab.org.uk/documents/IFRNPO-FullReport-Final-07022014.pdf

below, Annex A contains information about 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.

UK

2.2 In the UK donated assets are capitalised as a fixed asset where the asset will be held by the entity for on-going use in carrying out its activities. The corresponding gain is recognised as income from donations. Assets are valued at fair value on receipt, unless it is impractical to measure reliably the fair value of the assets. When there is no direct evidence of fair value for an equivalent item, a value may be derived from the cost of the item to the donor. Charities must disclose:

- the accounting policy for the recognition and valuation of donated assets;
- the nature and amounts of donated goods recognised;
- any unfulfilled conditions or other contingencies attaching to resources from non-exchange transactions that have not been recognised; and
- an indication of other forms of resources from non-exchange transactions which the entity has benefitted but not recognised in its accounts.

Australia

2.3 In Australia, donated assets are capitalised as a fixed asset where the asset qualifies for recognition as an asset under AASB 116 *Property Plant and Equipment*. The corresponding gain is recognised as income from donations. Assets are valued at cost, being the fair value at the date of acquisition. Entities must disclose information to allow users to understand the effects of these donations, and are recommended to disclose 'grants, bequests and donations of cash, other financial assets and goods' as a separate category of income.

2.4 AASB 1058 *Income of Not-for-Profit Entities* requires that, when there is a transfer to enable an NFP entity to acquire or construct a non-financial asset to be controlled by the entity, the asset transferred shall be accounted for in accordance with the applicable Australian Accounting Standard, for example AASB 116 *Property, Plant and Equipment* (IAS 16) or AASB 138 *Intangible Assets* (IAS 38).

2.5 Additional guidance exists for those entities that hold heritage or cultural assets, regarding the ongoing revaluation of these assets. There is also a separate section of the guidance that deals with where an entity has received cash to acquire or construct PPE.

New Zealand

2.6 In New Zealand Tier[2] 1 and Tier 2 organisations are required to recognise donated assets when it is probable that the future economic benefits or service potential will flow to the entity and the fair value of the assets can be measured reliably. Donated assets are capitalised as a fixed asset on receipt

[2] Tiers are used in New Zealand and set with reference to the nature and size of an organisation

or where there is a binding arrangement to receive the goods. The corresponding gain is recognised as non-exchange revenue. Donated assets are recognised at fair value as at the date of acquisition, which may be ascertained by reference to an active market or by appraisal. Where the asset has conditions attached, a liability is recognised which is reduced and revenue recognised as the conditions are satisfied.

2.7 Entities must disclose the:

- Accounting policies adopted for the recognition of revenue from non-exchange transactions;
- For major classes of revenue from non-exchange transactions, the basis on which the fair value of inflowing resources was measured;
- The nature and type of major classes of bequests, gifts, and donations, showing separately major classes of goods in-kind received

In addition, disclosure is required of:

- the amount of liabilities recognised in respect of conditions and restrictions that impose limits on the use of assets, and
- the amount of assets subject to restrictions assists users in making judgements about the ability of the entity to use its assets at its own discretion.

2.8 Tier 3 organisations are required to capitalise donated assets as a fixed asset where the donated asset is significant and has a useful life of 12 months or more. The corresponding gain is recognised as donation revenue. Donated assets are recorded on receipt at 'readily obtainable current values'. This could be rateable or government valuation. The entity must disclose the source and date of the valuation of those donated assets which have been recognised. It must also provide a description of those assets (categorised by class where appropriate) which are significant but have not been recognised.

2.9 Significant donated assets for which values are not readily obtainable value (for example intangible assets, highly specialised assets, and heritage assets), do not need to be recorded in the statement of financial position but are required to be disclosed in the notes to the performance report (by class if appropriate).

<u>Canada</u>

2.10 The guidance in Canada requires that donated assets are capitalised as fixed assets, with the corresponding gain recognised as a contribution. The assets are valued at fair value at the date of contribution. This may be estimated using market or appraisal values. Where the fair value cannot be reasonably determined, the assets are measured at nominal value. An entity must disclose the nature and amount of assets recognised in the financial statements. An entity must also disclose information about assets recognised at minimal value in the financial statement.

2.11 Small NFPOs should also disclose:

- The policy followed in accounting for tangible capital assets;
- information about major categories of tangible capital assets not recorded in the statement of financial position, including a description of the assets

(age, location, present or potential users and estimated remaining useful lives); and

- if tangible capital assets are expensed when acquired, the amount expensed in the current period.

USA

2.12 In the United States, donated assets are capitalised as fixed assets where the asset will be used internally by the entity. The corresponding gain is recognised as a contribution. How the donation is classified will be dependent on whether the asset will be part of the NFP's ongoing core activities (revenues), or is peripheral or incidental to the NFP (gains). Where the donor has not stipulated for how long the donated assets must be used, the revenue must be reported as 'unrestricted' support. However, where the entity has a policy to imply a time restriction that expires over the useful life of donated assets, the revenue must be reported as 'restricted' support and the restriction expires over the useful life of the asset.

2.13 Assets are measured at fair value at the date received by the entity. The standards also provide guidance on how fair values can be estimated. No specific narrative disclosure required or recommended.

2.14 The treatment differs where the donated asset is a work of art, historical treasure or similar asset that is added to a collection where the entity does not capitalise its collections. In such instances the entity does not recognise the asset.

2.15 Where assets have been donated under unconditional promises to provide the use of long-lived assets for a specified number of periods, the promise should be reported as revenue and a contribution receivable for the difference between the fair rental value of the property and the stated amount of the payments. Annex A provides further information on the relevant standards and examples.

France

2.16 In France donations are recognised at the date of signature of the deed of donation or if the deed provides for transfers of ownership spread over time, at the date of each transfer of ownership.

2.17 For non-monetary bequests/donations, when there is a testator/donator stipulation or when the entity decides to hold it for carrying out its activity, the asset is accounted for in accordance with its nature. If the entity decides to sell the donated asset it is classified as an "asset held for sale".

**Question 1: Does this summary together with Annex A accurately reflect the current state of standards/guidance issued? Is the TAG aware of any other guidance on accounting for donated capital assets issued by national standard setters or other regulatory bodies?**

## 3. IPSAS and current developments

3.1 The accounting treatment for donated assets is addressed in IPSAS 23 *Revenue from non-exchange transactions*. Paragraphs 93 to 97 relate to gifts and donations including goods in-kind. In addition paragraphs 14-25 consider the nature of stipulations, conditions and restrictions in relation to transferred /donated assets and also substance over form.

3.2 These paragraphs state that goods in-kind are recognised as assets when the goods are received, or there is a binding arrangement to receive the goods. They also state that if there are no 'restrictions' in relation to the asset then revenue is recognised immediately. However, if there are conditions, these represent a present obligation to be recognised as a liability, with the liability reduced and revenue recognised as conditions are satisfied.

3.3 With regards to valuation, IPSAS 23 says that goods in-kind are measured at their fair value at date of acquisition, which may be made with reference to an active market or appraisal.

3.4 As noted in paper TAGCP01 – 08 Specific Issue – Volunteer Services In-Kind, and TAGP01 – 09 Specific Issue (Restricted Funds) IPSASB is in the process of updating IPSAS 23 following the issue of IFRS 15 *Revenue from Contracts with Customers*. In particular it is considering the nature of performance obligations in the public sector and the impact on the timing of revenue recognition if there is a binding arrangement as well as present obligations, rather than performance obligations, or if there is no binding arrangement The issue of capital grants is being addressed explicitly as part of this work, so the Exposure Draft planned for Q1 2020 will be available to be reflected in the Consultation Paper.

3.5 In addition IPSASB is currently examining the topic of Measurement. IPSASB issued a Consultation Paper on Measurement in April 2019, which includes a draft Exposure Draft. The objective of the proposed new standard is to define measurement bases that assist in reflecting fairly the cost of services, operational capacity, and financial capacity of assets and liabilities and how to identify approaches under those measurement bases to be applied through individual IPSAS to achieve the objectives of financial reporting.

3.6 Given the reliance on fair value to measure the value of donated assets, the proposed new standard may assist in measuring fair value and should be factored into the Guidance.

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

## 4. Reporting Options

4.1 There appears to be consensus that donated assets should be capitalised as fixed assets where the asset meets the definition of an asset under relevant accounting standards. The jurisdictions included within this paper have accounting standards or guidance that appear to be consistent with the following:

'Donated assets are recognised where it is probable that any future economic benefits associated with an item will flow to or from the entity and the item has a cost or value that can be reliably measured. Donated assets are valued at fair value on date of acquisition'

In addition a number of jurisdictions state that 'recognition of an asset arising from a non-exchange transaction occurs when an entity gains control of resources that meet the definition of an asset and satisfy recognition criteria'

4.2 As a consequence it is proposed that these definitions/criteria are used in relation to the recognition of donated capital assets. This is consistent with IFRS for SMEs. As stated in paragraph 1.3 revenue recognition associated with donated capital assets will be the subject of a separate issue paper.

**Question 3: What is the TAG's view on the definitions/criteria for asset recognition?**

4.3 However, there are some differences in the guidance regarding valuation methods and disclosure requirements and the responses also highlight the potential for differences where an asset has a stipulation, condition or restriction ('stipulations').

4.4 Drawing on the definitions used in IPSAS 23[3] (paragraphs 14-25), stipulations refer to the imposition of terms on the use of a transferred asset, normally how the asset may be used, and may lead the entity to act or perform in a particular way. As such stipulations may either be conditions or restrictions.

4.5 Conditions require an entity to consume the future economic benefits or service potential of an asset as specified. Failure to do so (breach) requires the return of future economic benefits or service potential to the transferor. As a consequence the recipient incurs a present obligation to transfer future economic benefits on receipt of the asset and a resultant liability.

4.6 Restrictions do not include a requirement that the transferred asset or other future economic benefits or service potential is returned to the transferor if the asset is not deployed as specified. As a consequence there is no present obligation and therefore no liability on transfer of the asset to the recipient.

4.7 The existence of 'stipulations' may also have implications for the valuation of the asset. Guidance on how to apply depreciation in these circumstances, may more generally be required.

[3] https://www.ifac.org/system/files/publications/files/IPSASB-HandBook-2018-Volume-1.pdf

4.8 Based on these differences a number of options have been set out below for measurement, disclosure and the presentation of restrictions. Whilst presentation issues have been included in this paper and Paper 10, it is proposed that in the Consultation Paper, presentation of financial statements is addressed as a separate topic. Annex B also lists of these options and how these align with standards/guidance in a number of jurisdictions.

**Measurement**

**Option 1:** Assets are valued at fair value at the date of acquisition, where it is practical to do so, with fair value assessed with reference to an active market or where there is no active market with reference to other evidence to include:

- Appraisal by a professional valuer
- By reference to equivalent assets
- Government data such as rateable values or government valuations
- Reproduction cost or depreciated replacement cost

Where it is not practical produce a valuation, **disclosures** should be made of assets not valued.

**Option 2:** As above except where it is not practical to produce a valuation, assets should be held at a **nominal value**.

**Disclosures**

**Option 3:** Disclosures are made about donated assets as follows:

- Nature, type and amount by major class of donated asset
- Amount of donated assets that are subject to restrictions and the nature of those restrictions
- A description of donated assets not included in the accounts separated between those that are not recognised based on the accounting policy and those for which fair values cannot be realistically obtained
- Source and basis of fair valuation
- Liabilities in respect of conditions that impose limits on the use of donated assets.
- The revenue impact of donated assets is included as a separate category of income.

**Option 4:** Entities must disclose information to allow users to understand the effects of donations.

**Presentation**

**Option 5:** Do not separate assets between those that have restrictions or conditions and those that are unrestricted on the face of the financial statements and rely on disclosures in the notes to the accounts.

**Option 6:** Separate donated capital assets between those that have been donated with restrictions and those that are unrestricted on the face of the financial statements and the related notes.

**Question 4: Does the TAG agree that the above options should be included in the Consultation Paper with presentation issues being dealt with as a separate topic?**

4.9 Whilst there are options as set out above in relation to the presentation of assets that are subject to 'stipulations', the options do not address the valuation of assets and related depreciation of such assets. It is proposed that further research is carried out to understand the specific issues for NPOs that have assets with 'stipulations', including assets that are donated for a defined period or for a time limited defined purpose.

**Question 5: Does the TAG have views on the proposed additional research?**

## 5. Next steps

5.1 To ensure that the Consultation Paper most accurately reflects the issues being experienced globally on accounting for donated assets, further input may be required to ensure that the issue has been correctly defined.

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.

**Question 6: What specific input should be sought from the PAG about the issue definition and proposed options?**

September 2019

## Annex A - Valuation of donated capital assets – *where these are to be used for social purposes rather than for resale*

| Canada | New Zealand | United Kingdom | USA | Australia |
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| **Private Sector NFPOs**<br><br>This is covered in paragraphs 7, 10, and 35-37 of Section 4431 and paragraphs 9-12 of Section 4432.<br><br>For a contributed tangible capital asset or intangible asset, it is recognized at its fair value at the date of contribution. Fair value may be estimated using market or appraisal values. If fair value cannot be reasonably determined, it is recognized at nominal value.<br><br>**Public Sector NFPOs**<br><br>The guidance under PSA Handbook – Not-for-Profit ("NFP") Accounting sections (Sections PS 4200 to PS 4270) is similar to Part III of the CPA Handbook. For Government Not-for-profit Organizations that do not follow the NFP specific sections, the guidance is different. | **Tier 1 and Tier 2 PBE Standards**<br><br>On initial recognition, goods in-kind that do not meet the definition of inventories are measured at their fair value as at the date of acquisition, which may be ascertained by reference to an active market, or by appraisal.<br><br>This is covered under paragraphs 97 and B18-B18.1 of PBE IPSAS 23.<br><br>**Tier 3 Simple Format Reporting Standard – Accrual (NFP)**<br><br>Significant donated assets, such as significant items of property, plant and equipment, shall be recorded at readily obtainable current values, such as rateable or government valuation, where it is practicable to obtain such current values. Significant donated assets for which values are not readily obtainable, do not need to be recorded in the statement of financial position but shall be disclosed in the notes to the | Goods donated for on-going use by a charity in carrying out its activities are recognised as tangible fixed assets, with the corresponding gain recognised as income from donations within the Income Statement (Statement of Financial Activities).<br><br>Donated capital assets must be measured at their fair value, unless it is impractical to measure reliably the fair value of the asset. When there is no direct evidence of fair value for an equivalent asset, a value may be derived from the cost of the item to the donor.<br><br>This is covered in paragraphs 6.20 to 6.22 of SORP (FRS 102) , and sections PBE34.67 to PBE34.73 and Appendix B to Section 34 of FRS 102. | ASC 958-605-25 paragraphs 18-19 describe the accounting for contributions of works of art, historical treasures, and similar items. If they are not part of a collection, such items are recognized as assets and revenue, but if they are part of a collection the treatment will vary based on whether the entity capitalizes its collections or not.<br><br>ASC 958-605-55-23 states that an NFP would recognize the fair value of the use of contributed assets such as property, utilities, or advertising time as both revenue and expense in the period received. It also describes how fair value could be estimated.<br><br>ASC 958-605-55-24 provides guidance on unconditional promises to give the use of long-lived assets for a specified number of periods. The promise should be reported as revenue and contribution receivable for the difference between the | AASB 1058 Income of Not-for-Profit Entities paragraphs 17 requires that, when there is a transfer to enable an NFP entity to acquire or construct a recognisable non-financial asset to be controlled by the entity, the asset transferred shall be accounted for in accordance with the applicable Australian Accounting Standard, for example AASB 116 Property, Plant and Equipment (IAS 16) or AASB 138 Intangible Assets (IAS 38).<br><br>Illustrative Examples 9 and 10 of AASB 1058 gives an example. |

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| | performance report (by class if appropriate).<br><br>This is covered under paragraphs A62 and A111-A112 of Public Benefit Entity Simple Format Reporting – Accrual (Not-for-profit). | | fair rental value of the property and the stated amount of the payments. Examples of contributed assets can be found in Examples 1 and 5 of ASC 958-605-55 under paragraphs 32--48, respectively.<br><br>***All Codification references mentioned below can be found by clicking here and creating a basic account*** | |

**Annex B – Donated Capital Assets - Analysis to support options[1]**

| | UK | Australia | New Zealand | Canada | USA | IPSASB |
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| **Measurement** | | | | | | |
| **Option 1**: Assets are valued at fair value at the date of acquisition, where it is practical to do so, with fair value assessed with reference to an active market or where there is no active market with reference to other evidence to include:<br>• Appraisal by a professional valuer<br>• By reference to equivalent assets<br>• Government data such as rateable values or government valuations<br>• Reproduction cost or depreciated replacement cost<br>• The revenue impact of donated capital assets is included as a separate category of income.<br>Where it is not practical to do so disclosures should be made of assets not valued. | Based on FRS102 and allows fair value to be derived from cost to the donor | Based on IFRS, with assets valued at cost, being the fair value at the date of acquisition. | Based on IPSAS and allows smaller bodies to value based on government data | Allows valuation based on market value or appraisal value | Consistent with IFRS fair value measure-ments maximise observable inputs | Fair value derived with reference to an active market or appraisal and for specialised assets based on cost to replace the asset in its current condition. (IPSAS 17) |
| **Option 2**: Assets are valued at fair value at the date of acquisition, where it is practical to do so, with fair value assessed with reference to an active market or where there is no active market with reference to other evidence to include:<br>• Appraisal by a professional valuer<br>• By reference to equivalent assets<br>• Government data such as rateable values or government valuations<br>• Reproduction cost or depreciated replacement cost<br>• The revenue impact of donated capital assets is included as a separate category of income.<br>Where it is not practical to do so assets should be held at a nominal value. | | | | Allows the use of nominal value where assets cannot be practically valued | | |

[1] Except for IPSAS analysis is based on data provided to the IFASS working group, which may as yet not address all the points.

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| **Disclosures** | | | | | | |
| **Option 3**: Disclosures are made about donated assets as follows:<br>• Nature, type and amount by major class of donated asset<br>• Amount of donated assets that are subject to restrictions and the nature of those restrictions<br>• A description of donated assets not included in the accounts separated between those that are not recognised based on the accounting policy and those for which fair values cannot be realistically obtained<br>• Source and basis of fair valuation<br>• Liabilities in respect of conditions that impose limits on the use of donated assets. | Largely consistent with the UK Charities SORP | | Consistent with the NZ PBE IPSAS | Largely consistent with the Canadian National Standards for PBEs in the private sector | | Consistent with the requirement of IPSAS 23 |
| **Option 4**: Entities must disclose information to allow users to understand the effects of donations. | | Specific disclosures not detailed | | | Specific disclosures not detailed | |
| **Presentation** | | | | | | |
| **Option 5**: Separate donated assets between those that have been donated with restrictions and those that are unrestricted on the face of the financial statements and the related notes. | Required per the UK Charities SORP | | | | US Standards require separation of restricted assets | |
| **Option 6**: Do not separate assets between restricted and unrestricted on the face of the financial statements and rely on disclosures in the notes to the accounts. | | Sector neutral approach does not require a split | | | | |