INTERNATIONAL FINANCIAL REPORTING
FOR NON PROFIT ORGANISATIONS

Technical Advisory Group Issue Paper

AGENDA ITEM: TAGCP08a-01
19 May 2020 – Online

Gifts-in-kind (Non-Financial Assets and Inventory)

Summary	The accounting treatment of gifts in-kind (non-financial assets and inventory) has been identified as a specific issue for non-profit organisations. This paper brings together material gathered from national and international standard setters.
Purpose/Objective of the paper	To allow TAG members to consider the nature of the issue, potential ways forward and text for inclusion in the Consultation Paper.
Other supporting items	None
Prepared by	Paul Mason
Actions for this meeting	Advise on: • the description of the issue and its relationship with other topics • links to other international standard developments, national standards or other guidance • the need for any further input

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INTERNATIONAL FINANCIAL REPORTING
FOR NON PROFIT ORGANISATIONS

Gifts-in-kind (Non-Financial Assets and Inventory)

Part 1 – Advice Sought

1. Consultation Paper Draft

1.1 At the TAG meeting on 4 November 2019, the TAG agreed that the recognition and measurement of gifts in-kind (non-financial assets and inventory) should be included in the short list of issues to be included in the Consultation Paper.

1.2 Part 2 of this paper has been drafted for discussion, with the aim that the text is capable of being inserted directly into the Consultation Paper, subject to comments.

#	Question
1	What comments does the TAG have on Sections 1 and 2?
2	Do the summaries of national-level and international guidance in Sections 3 and 4, together with Annex A, accurately reflect the current standards/ guidance? Is the TAG aware of any other guidance on gifts in-kind (non-financial assets and inventory) issued by national standard setters or other regulatory bodies that should be included in the Consultation Paper?
3	Does the TAG agree with the presentation of the key issues in section 5, which link to other topics for inclusion in the Consultation Paper?
4	What comments does the TAG have on the proposed SMCs in relation to this topic and are there other specific SMCs that could be raised?

2. Next steps

2.1 The text drafted below will be included in the Consultation Paper subject to any further comments from the TAG. The Practitioner Advisory Group will be consulted on any specific issues raised by the TAG further to this discussion.

#	Question
5	Is there specific input to be sought from the PAG?

May 2020

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INTERNATIONAL FINANCIAL REPORTING FOR NON PROFIT ORGANISATIONS

Gifts-in-kind (Non-Financial Assets and Inventory)
Part 2 - Draft Consultation Paper Text

1. Description of the issue

1.1 NPOs receive gifts in-kind from a variety of sources. These can take a number of forms including plant and equipment, land and buildings (non-financial tangible assets), software (non-financial intangible assets), inventories for the NPO's own use and inventories for resale. Gifts in-kind may be given for the NPO's ongoing operations, for specific projects, or for capital purposes.

1.2 Some gifts in-kind may come with stipulations that makes it challenging for an NPO to know whether the donated item is really theirs and, therefore, whether it should be included on its balance sheet. For example, if a donor allows an NPO to use a piece of plant for the duration of a project (which could be multiple years), the NPO may find it difficult to assess whether the piece of plant is its asset, or that of the individual or organisation that provided it.

1.3 NPOs may find it more difficult to record the value of gifts in-kind than cash. While the general principle is that gifts in-kind should be measured at the value the organisation would have paid for it (i.e. what it is worth), this may not be a simple task. Donated assets may be specialised, have restrictions that are difficult to value or be so large in volume that it is impractical to value each item individually

1.4 NPOs can receive gifts in-kind that do not have a significant value. For low value/high volume inventories provided for resale NPOs may not have inventory management systems that allow them to record each item and it may be impractical to do so. NPOs may therefore have difficulty in both keeping records of items and assigning a value to each item.

1.5 NPOs can also receive donations that are intended for onward distribution to beneficiaries. Whilst it might be easier to keep records for these items it may be difficult to obtain a reliable value. For example, medical supplies that are near to their expiry date only have value if they can be utilised ahead of this date. It may not be possible for an NPO to estimate whether they can all be used.

1.6 If NPOs receive gifts in kind which are used in meeting their objectives or purposes, it is important that these are transparent in NPO financial statements. Stakeholders will have an interest in whether and how assets are utilised, particularly if they have been donated for a specific purpose.

2. Financial reporting challenges

2.1 Gifts in-kind can have stipulations, with which an NPO must comply to be entitled to the asset. Chapter x discusses how stipulations affect the accounting for cash transfers (principally around recognition), and these financial reporting challenges apply equally to gifts in-kind. There are, however, additional recognition challenges described in paragraphs 2.2 and 2.3 below.

2.2 In order to recognise an item/asset an NPO will need to assess whether it has control over a gift in-kind, irrespective of whether it legally owns it. Judgement may be required if the stipulations have a material impact on the use of the asset. The substance of the donation will need to be determined. If the NPO concludes that it does not control the gift in-kind, it will need to consider whether the donor is providing a service in-kind by allowing the NPO to use the asset.

2.3 There is also a challenge as to whether the NPO can reliably measure the gift in-kind. For an NPO to measure the value of a gift in-kind it needs to know the date that it took control of each item, (which may not be the same date that it took legal ownership) and be able to determine a reliable estimate of its value at this date. The costs of obtaining a reliable value may be disproportionate to its value and outweigh the benefits that having a value will provide. If an NPO cannot obtain a reliable measurement it may not be able to recognise the item in its financial statements.

2.4 Gifts in-kind given for resale are typically high in volume and low in value. Where it is impracticable for the NPO to determine a reliable estimate of the value of an asset, it may not be possible to recognise such gifts in-kind in the financial statements at the point that they are received. In such circumstances, revenue could be recognised at a later point, i.e. when the items are sold.

2.5 Similar issues can arise for items given for distribution to service users rather than resale. In this context, items may be distributed directly to service users or may be used by an NPO to provide services to service users. Practical difficulties can arise in determining whether all of the items donated have a value. If it is not possible to estimate the amount that can be used it may be difficult to prepare a reliable estimate of their value, even if the value of each item is known, because they have zero value if they can't be used or sold. The measurement of such items is discussed in the chapter on the measurement of inventory held for distribution.

2.6 It is possible that no revenue is recorded for the use of this type of donated inventory, with the gift in-kind not being recorded in an NPO's financial statements. This is because it might not be possible to measure the item at the point of donation or subsequently if there are no proceeds. Revenue (and a matching expense) could be recognised when the inventory is used. This may be possible when the value of individual items is known. If it is possible, recognising revenue and an expense when inventory is issued would provide more useful information about the cost of the NPO's activities.

2.7 There may also be challenges in determining the value of gifts in-kind of capital assets, both tangible and intangible. For example, if a playing field donated to an NPO could be sold for a higher price for use as housing development it might be argued that the playing field is measured to reflect the value as development land. This may not appropriately reflect the social nature of the NPO's objectives or the service potential that it will obtain from the asset. Disclosure of an asset's "highest and best use" (fair value), even though there is no intention to sell, may, however, be useful for stakeholders. Obtaining valuations, particularly if external advice is required could be costly, with the cost exceeding the benefit provided by the additional information.

2.8 Differing treatments of the same transaction can lead to inconsistency in approach. This can make it difficult for stakeholders to understand financial statements and compare similar entities.

3. Current international guidance

3.1 Currently international guidance on gifts in-kind and the measurement of fair value is included in the following standards:

- IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*
- IFRS 13 *Fair Value Measurement*
- Section 23 and section 24 *IFRS for SMEs*[1]
- IPSAS 23 *Revenue from Non-exchange Transactions* (Taxes and Transfers)

3.2 Generally, the guidance provided by the standards is based on the principle that non-exchange revenue (where cash or any other asset is received without the expectation of providing something of equal value to the direct benefit of the contributor in return) is recognised when it is probable that the entity will receive the economic benefits associated with the transaction and that it can be reliably estimated.

3.3 IAS 20, IFRS for SMEs and IPSAS 23 all require revenue from gifts in-kind to be measured at fair value at the date of acquisition. Fair value may be ascertained by reference to an active market or by appraisal. No exceptions are included for specific circumstances. IAS 20 does note that "an alternative course that is sometimes followed is to record both asset and grant at a nominal amount." This approach is not consistent with the current IFRS Conceptual Framework and is no longer considered acceptable practice.

3.4 Under IFRS 13, fair value is defined with reference to an exit value (that is, the price that could be achieved by selling the asset), assuming a highest and best use. Highest

[1] The International Accounting Standards Board has commenced a review IFRS for SMEs and in particular to consider updates for IFRS standards issued since the last update. This includes IFRS 15 *Revenue from Contracts with Customers.*

and best use takes into account any legal restrictions on an asset. Consequently, if a building was donated to an NPO with a restriction that it must be used to provide education (whether by the NPO or a subsequent owner), the fair value would reflect that restriction.

3.5 In IPSAS, fair value[2] is defined in IPSAS 9 *Revenue from Exchange Transactions* as "the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction." This definition, by referring to an exchange rather than a sale, includes both exit values (best price from a sale) and entry values (cost of replacing the service potential the NPO will gain from using the asset).

4. National-level guidance

4.1 Annex A shows the different approaches to the treatment of gifts in-kind in national-level guidance. While national standards can be converged on IFRS, IFRS for SMEs or IPSAS, or set independently of international standards, there is consensus on the core recognition and measurement principles. There are, however, differences between national standard setters with regard to the exceptions to these principles, if any, that they permit or require.

4.2 One national standard setter provides guidance that the entity must consider whether the gift in-kind can be measured reliably and whether the benefits of recognising the gift in-kind outweigh the costs. Where it is impracticable to estimate the value of the gift in-kind with sufficient reliability, the revenue is included in the financial period when the gift in-kind is sold. In the absence of an open market, fair value may be derived from other sources, for example the cost to the donor, or the estimated resale value (after deducting costs to sell).

4.3 Requirements for NPOs set by the same national standard setter provide further guidance where it is impracticable to estimate the value of the gift in-kind with sufficient reliability. The value of gifts in kind given for distribution to beneficiaries is recognised as a component of revenue when it is distributed, with an equivalent amount recognised as an expense. In this context, items are given for distribution where they are intended to either be passed on to service users or be used by an NPO to provide services.

4.4 One national standard setter provides guidance for NPOs based on the size of the entity. Guidance for the larger organisations allows an option not to recognise gifts in-

[2] Having two definitions of fair value could be confusing, which is one of the reasons the IPSASB, in its Consultation Paper *Measurement*, proposed adopting a definition of fair value that is consistent with IFRS 13. The IPSASB also proposed using an alternative term for those circumstances in which a current value using entry prices (the cost of replacing an asset's service potential) will be necessary in the public sector.

kind that meet the definition of inventories if it is not practicable to reliably measure their fair value. Gifts in-kind for resale are recognised as revenue when they are sold. No revenue is recognised in respect of gifts in-kind for distribution to beneficiaries. This can result in inventory not being included in the NPO's balance sheet.

4.5 Guidance from the same standard setter for smaller entities does not require revenue to be recognised for the receipt of gifts in-kind (although revenue would be recognised if goods were subsequently sold). A gift in-kind of a significant fixed asset is recognised as an asset and revenue; the measurement is based on a readily obtainable value such as rateable value.

4.6 One national standard setter does not permit or require any variation from fair value measurement but provides additional guidance on assessing fair value for gifts in-kind and donated fixed assets.

4.7 One national standard setter provides guidance that an entity may choose to recognize contributed capital materials and services when fair value can be reasonably estimated, and the materials and services are used in the normal course of operations and would otherwise have been purchased. Revenue in respect of a donated capital asset may be deferred and recognised on the same basis as the depreciation of the capital asset. This is similar to the approach in IAS 20. Alternatively, where the NPO has a restricted fund in respect of the asset, revenue can be recognised immediately in that fund. Expenses relating to the asset, including depreciation, will also be recognised in that fund. These two approaches are considered in the cash transfers chapter.

5. Alternative financial reporting treatments

5.1 Both international and national accounting standards adopt the same recognition and measurement principles for revenue. Where a gift in-kind does not have stipulations, revenue is recognised immediately if it is probable that the NPO will be in receipt of the benefits arising from having the donated item; and the item can be reliably measured. Some national accounting standards include exceptions from the general recognition criteria and measurement principles for some gifts in-kind. These exceptions have informed the development of the alternative approaches in this chapter.

5.2 The alternative financial reporting approaches for gifts in-kind address questions of whether, and if so, when, there should be exceptions to the general recognition criteria and measurement principles for some gifts in-kind. Determining when a gift in-kind has a stipulation raises the same issues as for incoming cash transfers, and the alternative approaches that address these recognition challenges are addressed in that chapter.

5.3 Stipulations requiring an NPO to return an asset where a specified future event occurs (for example, an NPO ceasing to use the asset as intended) do not affect the initial recognition of revenue. This, together with gifts in-kind being initially measured at fair value, is reflected in all approaches.

5.4 In all alternatives gifts in-kind are recognised as assets and revenue at the same time (subject to any stipulations attached to the gift). Gifts in-kind will be recognised as property, plant and equipment; as intangible assets; or as inventory, depending on the nature of the asset.

5.5 Except for immaterial gifts in-kind, international accounting standards do not permit any exceptions from the general recognition criteria and measurement principles. This is the basis of the first alternative. Additional NPO specific guidance would be required to assist NPOs in applying the requirements in the international standards.

5.6 The second alternative permits (but does not require) some exceptions to the general recognition criteria and measurement principles for items of inventory received where there are difficulties in obtaining a fair value at a cost that is appropriate for the value of the item. Additional NPO specific guidance would be required to assist NPOs in applying these exceptions. Additional disclosures relating to the exceptions would be required, for example a narrative disclosure outlining the items which are not recognised at fair value.

5.7 The third alternative mandates the use of the exceptions permitted in alternative 2, which would provide consistency. As with option two, additional disclosures would be required and additional NPO specific guidance will need to be provided.

5.8 The fourth alternative is based on alternative three but removes the additional disclosure requirements. While this may be easier for NPOs to prepare, it may make the financial statements more difficult for stakeholders to interpret. For that reason, the Technical Advisory Group has advised that from a technical perspective it does not support this alternative, 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.

	Description	Advantages	Disadvantages
Alternative 1 Use recognition and measurement principles from international standards with additional NPO specific guidance	• Additional NPO specific guidance and examples on how to recognise and measure gifts in-kind (for example, low value, high volume donations for resale, determining when an NPO controls a gift in-kind and donated assets where fair value may not reflect the value of the asset to the NPO).	Technical • Allowed by IFRS, IFRS for SMEs and IPSAS. Practical • Specific guidance may assist NPOs in their potentially complex arrangements. Cost/benefit • Guidance may assist in considering cost/benefit.	Practical • Measuring fair value may be complex. • NPOs may not have the stock control systems needed to recognise and measure gifts in-kind. • Challenge of determining materiality as a means to not recognise revenue. Stakeholder • May lead to inconsistent treatments and obscure transparency. Cost/benefit • Measuring fair value may be costly.
Alternative 2 Permit exceptions to the recognition and measurement requirements for inventory, where measuring fair value is impracticable (NPO specific guidance provided)	• Permit NPOs to recognise revenue from gifts in-kind donated for resale at point of sale, where measuring fair value is impracticable. • Permit NPOs to not recognise revenue on receipt of gifts in-kind donated for distribution, where measuring fair value is impracticable. Permit NPOs to recognise revenue and an expense when items are distributed or used to provide services.	Practical • Pragmatic approach, particularly for smaller NPOs that may not have the systems required to measure fair value. • Specific guidance to assist NPOs in their potentially complex arrangements. • Allows NPOs to develop systems to recognise and measure all gifts in-kind over time without being too onerous.	Technical • Revenue from gifts in-kind may not be recognised and measured in the same way as other revenue. • May not be consistent with IFRS, IFRS for SMEs and IPSAS (for example, where fair value is derived from other sources). Stakeholder • Allowing a choice of accounting policy may mean that NPOs' financial statements may not be comparable.

	Description	Advantages	Disadvantages
	• Permit NPOs to measure gifts in-kind at a fair value derived from other sources, for example the cost to the donor, or value in use to the NPO. • Require additional disclosures where an NPO uses one of the permitted exceptions. • Additional NPO specific guidance (for example, determining when an NPO controls a gift in-kind and donated assets where fair value may not reflect the value of the asset to the NPO).	Stakeholder • Allows stakeholders to assess the effect of exceptions on the financial statements. Cost/benefit • Guidance may assist in considering cost/benefit.	
Alternative 3 Mandate exceptions to the recognition and measurement requirements with additional disclosure requirements	• Require NPOs to recognise revenue from gifts in-kind donated for resale when the items are sold. • Require NPOs to recognise revenue and an expense when items are distributed or used to provide services. • Permit NPOs to measure gifts in-kind at a fair value derived from non-market sources, for example the cost to the donor, or value in use to the NPO. • Require additional disclosures about revenue from gifts in-kind donated for resale, and about gifts in-kind donated for distribution, including whether any revenue is recognised.	Practical • Pragmatic approach, particularly for smaller NPOs that may not have the systems required to measure fair value. • Specific guidance to assist NPOs in their potentially complex arrangements. Stakeholder • Allows stakeholders to assess the effect of exceptions on the financial statements. • Enhances comparability between NPO financial statements.	Technical • Revenue from gifts in-kind will not be recognised and measured in the same way as other revenue. • May not be consistent with IFRS, IFRS for SMEs and IPSAS (for example, where fair value is derived from other sources). Stakeholder • May provide less useful information, where gifts in-kind are no longer recognised as the items are received. Cost/benefit • NPOs capable of measuring fair value for all gifts in-kind may incur costs to amend systems to meet requirements.

	Description	Advantages	Disadvantages
	• Additional NPO specific guidance (for example, determining when an NPO controls a gift in-kind).	• Increased consistency of revenue recognised. Cost/benefit • Guidance may assist in considering cost/benefit.	
Alternative 4 Mandate exceptions to the recognition and measurement requirements with no additional disclosure requirements	• Require NPOs to recognise revenue from gifts in-kind donated for resale when the items are sold. • Require NPOs to recognise revenue and an expense when items are distributed or used to provide services. • Permit NPOs to measure gifts in-kind at a fair value derived from non-market sources, for example the cost to the donor, or value in use to the NPO. • Additional NPO specific guidance (for example, determining when an NPO controls a gift in-kind).	Practical • Pragmatic approach, particularly for smaller NPOs that may not have the systems required to measure fair value. • Specific guidance to assist NPOs in their potentially complex arrangements. Stakeholder • Enhances comparability between NPOs' financial statements. • Increased consistency of revenue recognised. Cost/benefit • Guidance may assist in considering cost/benefit.	Technical • Revenue from gifts in-kind will not be recognised and measured in the same way as other revenue. • The recognition and measurement of gifts in-kind will not be consistent with the requirements of IFRS, IFRS for SMEs and IPSAS. Stakeholders • Not providing disclosures may make the financial statements less useful and impact transparency. Cost/benefit • NPOs that are currently capable of measuring fair value for all gifts in-kind may incur costs in amending systems.

Specific Matters for Comment

1. Do you agree that the list of alternative treatments that should be considered is exhaustive? If not, please describe your additional proposed alternatives, and explain why they should be considered.
2. 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.
3. Please identify the alternative treatment that you favour, and the reasons for your view.

[Draft generic questions for further discussion]

Annex A – Gifts In-Kind

	IFRS and IPSAS	UK	Australia	New Zealand	Canada	USA
Alternative 1 Use recognition and measurement principles from international standards with additional NPO specific guidance	IAS 20, IFRS 13, IFRS for SMEs sections 23 and 24, and IPSAS 23 provide guidance on recognising and measuring gifts in-kind.		AASB 15 and AASB 1058 provide guidance on recognising and measuring gifts in-kind.			*Although the US standards are not based on international standards, the requirements are similar, and the US standards do not provide any exceptions to the general recognition and measurement principles.* ASC 958-605-25, 958-605-30, 958-605-35 and 958-605-45 provide additional guidance on assessing fair value for gifts in-kind and donated fixed assets.
Alternative 2 Permit exceptions to the recognition and measurement requirements where measuring fair value is impracticable (NPO specific guidance provided)		FRS 102 permits revenue from gifts in-kind to be recognised when the items are sold or distributed when it is impracticable to recognise revenue on receipt of the items. Where items are distributed at no cost, an expense is also		PBE IPSAS 23 permits entities not to recognise revenue from gifts in-kind that meet the definition of inventories if it is not practicable to measure reliably the fair value of those goods at the date of acquisition. Revenue is recognised when goods are sold; no revenue is	CPA Canada Handbook - Accounting, Section 4410 and the CPA Canada Public Sector Accounting Handbook, PS 4210 permit NPOs to recognize gifts in-kind where fair value can be reasonably	

	IFRS and IPSAS	UK	Australia	New Zealand	Canada	USA
		recognised when the revenue is recognised. Where there is no direct evidence of an open market value, FRS 102 permits alternatives such as the cost to the donor or the resale value.		recognised where goods in-kind are distributed for free. PBE SFR A NFP does not require entities to recognise revenue from goods in-kind, unless they are significant donated assets.	estimated, the items are used in the normal course of operations, and the items would otherwise have been purchased.	
Alternative 3 Mandate exceptions to the recognition and measurement requirements with additional disclosure requirements						
Alternative 4 Mandate exceptions to the recognition and measurement requirements with no additional disclosure requirements						

	IFRS and IPSAS	UK	Australia	New Zealand	Canada	USA
Standards References	IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*, IFRS 13 *Fair Value Measurement*, IFRS for SMEs sections 23 and 24, IPSAS 23 *Revenue from Non-Exchange Transactions (Taxes and Transfers).*	FRS 102 Section 24 *Government Grants*, FRS 102 Section 34 *Incoming Resources from Non-exchange Transactions*, Charities SORP (FRS 102) (Second Edition) Section 5 *Recognition of income, including legacies, grants and contract income.*	AASB 15 *Revenue from Contracts with Customers* AASB 1058 *Income of Not-For-Profit Entities*	PBE IPSAS 23 *Revenue from Non-Exchange Transactions* for Tier 1 and 2 entities PBE SFR A NFP, *Public Benefit Entity Simple Format Reporting – Accrual (Not-for-Profit)* for Tier 3 entities.	CPA Canada Handbook - Accounting, Section 4410, *Contributions – revenue recognition* and the CPA Canada Public Sector Accounting Handbook, PS 4210, *Contributions – revenue recognition*	Accounting Standards Codification (ASC) 958-605-25 (Recognition) 958-605-30 (Initial measurement) 958-605-35 (Subsequent measurement) 958-605-45 (Other presentation matters)