INTERNATIONAL FINANCIAL REPORTING
FOR NON PROFIT ORGANISATIONS

Technical Advisory Group Issue Paper

AGENDA ITEM: TAGCP10-02
7 July 2020 – Online

Revenue

Summary	A combined revenue paper has been developed to address concerns about duplication across individual topic papers.
Purpose/Objective of the paper	To allow TAG members to consider whether a combined paper for revenue works better than four individual topic papers, whether this allows the issues to be properly described and reduces unnecessary duplication.
Other supporting items	None
Prepared by	Paul Mason
Actions for this meeting	Advise on: • The concept of a combined topic paper • The how the issues are described • The number and content of alternatives with a combined approach • The need for any further input

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Revenue

Part 1 – Advice Sought

1. Consultation Paper Draft

1.1 At the TAG meeting on November 4, the TAG agreed that the recognition and measurement of revenue should be included in the short list of issues to be included in the Consultation Paper.

1.2 The TAG has considered various papers related to this issue: services in-kind at its meeting on November 4, 2019; overarching principles for revenue and incoming cash transfers at its meeting on March 5, 2020; and gifts in-kind at its meeting on May 19, 2020.

1.3 The TAG noted that there was considerable overlap between the papers, and that this could be confusing for readers. This paper has been prepared to bring all the issues relating to revenue into a single chapter. As a consequence, this chapter is somewhat longer than other chapters in Part 2 of the Consultation Paper. However, the revised chapter is considerably shorter than the previous four chapters combined.

1.4 Bringing all four papers together and taking out duplication means that the issues relating to each individual topic are not in one place. This may make it more difficult to get a complete view of each issue.

1.5 Also, to accommodate the range of issues that need to be addressed in a single set of alternatives, there are six alternatives. Consultation Paper respondents may find it difficult to differentiate amongst the alternatives, with alternatives addressing different aspects of the issues.

#	Question
1	What comments does the TAG have on the description of the issue and the financial reporting challenges with a combined format? Are the reporting issues associated with each individual topic clear?
2	What are the TAG's views on the alternatives presented? Do they address the key issues across all topics?
3	Are there too many alternatives? If so what are the TAG's views on how they could be rationalised?

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?
5	What are the TAG's views on the overall effectiveness of a combined revenue chapter? If not, what might work better? What has worked well?

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?

June 2020

Revenue

Part 2 - Draft Consultation Paper Text

1. Description of the issue

1.1 NPOs receive a variety of different resources. NPOs rely on grants, cash donations, donations of individual items (gifts in-kind), donations of services or volunteer time (services in-kind) and bequests and endowments in order to meet their objectives. NPOs may also receive revenue earned from the sale of goods (e.g. merchandise) and services (e.g. health services, tuition fees and membership services), research and from the use of the entity's assets (e.g. interest, royalties and dividends).

1.2 Resources are often received without the contributor receiving something of equal value in return for their direct benefit (non-exchange transaction). Resources can be used to meet the operational costs of the NPO or for capital purposes.

1.3 Sales of goods and services do not typically present unique challenges for NPOs. The revenue received is more likely to approximate the value of the goods and services directly received in return (exchange transaction).

1.4 Revenue may comprise both an exchange and non-exchange component in some transactions. For example, a donor may receive goods after making a donation, but the value of these goods are clearly lower than the amount donated. This may raise a question about whether part of the donation is a purchase of goods (exchange). An NPO may face difficulties and/or additional costs if it is required to attribute incoming resources between these types of transactions.

1.5 Some types of non-exchange revenue transactions raise specific issues, but many apply to all non-exchange revenue. This chapter considers the common issues as well as those that are relevant to different types of non-exchange revenue.

Common Issues

1.6 A donor may impose restrictions on how the resources it has provided are used. If the donor has imposed a restriction (either temporary or permanent), the NPO may be entitled to the cash, but can only use the resources to specific purposes.

1.7 It may not be clear when an NPO is entitled to the resource (cash or other assets) as they may have performance obligations (conditions) that require the NPO to use the incoming resources as determined by the donor. NPOs may not be entitled to the resources until they have performed certain activities (for example, grants may be repayable if the related activity is not carried out).

1.8 Conditions or restrictions (stipulations) imposed by the contributor may limit how the NPO can use resources received. They may have to return the resource if they do not meet these stipulations.

1.9 Conditions and restrictions can create complexity for NPOs, as it may be difficult to know how and when resources should be reflected in their accounts. There are different views about when the terms imposed by a donor are a performance obligation (condition) and when they are a restriction. Knowing when to recognise revenue can be a particular issue for multi-year grants.

1.10 NPOs may find it difficult to estimate the value of some of the resources provided and therefore how to record their value. This includes services in-kind and inventory items.

1.11 Incorrect categorisation of incoming resources can lead to lack of transparency about the funds available for ongoing activities. Stakeholders might expect revenue and expenses to appear in the same reporting period. They might also expect the accounts to show that the resources provided have been used as they intended.

1.12 Stakeholder use information to make future decisions and lack of transparency may impact understanding. Stakeholders want to understand what has happened to the resources they have provided, but providing financial information that is useful may be challenging for a number of reasons including timing differences. The features of non- exchange transactions may make this more difficult.

Cash Transfers

1.13 Knowing when to recognise cash transfers can be problematic. Cash transfers can take the form of donations, grants and bequests. As highlighted in paragraphs 1.6 to 1.9 above conditions and restrictions may impact the timing of revenue recognition.

1.14 Grants may only be eligible if they are backed with valid expenses that satisfy the accounting and reporting requirements of that donor. Lack of evidence to support a grant claim or failure to adhere to its own procedures may lead to a resource provider disallowing all or part of the expenses. Where a grant has been paid in advance a refund may be requested.

Gifts In-Kind

1.15 It may be difficult to determine the value of gifts in-kind. While the general principle is that items donated such as plant and equipment and inventory should be recognised on the balance sheet and 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 items 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.

1.16 It may be impractical to value 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.

1.17 NPOs can 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 reliably estimate their value. For example, medical supplies that are near to their expiry date will only have value if they can be used ahead of this date. It may not be possible for an NPO to estimate whether they can all be used.

Services In-Kind

1.18 Services in-kind can include time provided by volunteers as well as free or discounted access to accommodation or equipment from other organisations. Volunteers can be carrying out activities that do not require specific qualification 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 contribute their professional or trade skills. Discounted internet services or free use of a warehouse can also be provided.

1.19 Capturing in-kind services can be challenging, particularly where these are volunteers providing general services. NPOs may not have the systems or records to identify who has provided services, what service was provided and when it was provided in every instance.

1.20 The value of own constructed assets could be understated if services in-kind are not captured. In constructing its own assets an NPO may have been provided free or discounted access to equipment or materials and may have received the services of volunteers, particularly volunteers with specialist skills.

1.21 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. Similarly, space may be offered in an expensive location, where the location is not necessary for the NPO. In both cases the service in-kind can be measured differently.

2. Financial reporting challenges

Common Issues

2.1 Determining in which financial reporting period revenue should be recognised can be a challenge. Revenue can only be recognised once any performance obligations or conditions have been satisfied. Revenue may need to be deferred if performance obligations have not been met.

2.2 NPOs may need to recognise a liability where resources have performance obligations or conditions. The liability represents the NPO's obligation to undertake the activities necessary to meet the performance obligations or conditions, or to return the resources to the donor. Judgements may be needed about the chances of having to refund revenue and when the likelihood of giving a refund diminishes from likely, to possible to unlikely. These judgements need to be quantified to determine the value of any liabilities that arise from these arrangements.

2.3 The substance of the conditions imposed need to be considered not just their form. Identifying the performance obligations or conditions and determining how they affect the recognition of the NPO's revenue can be a challenge. Guidance may be required on materiality and costs against benefits considered.

2.4 Ascertaining control over resources provided might be challenging and at a disproportionate cost. NPOs need to be certain that they have control over the resources provided for them to be recognised. For some types of resources (e.g. services in-kind) an NPO might need additional systems to ascertain the amount of resource it controls.

2.5 Measuring services or assets that have been gifted can be problematic. Measurement is not generally an issue for cash transfers but can be challenging where donations take the form of gifts in-kind or services in-kind. These are discussed in the individual sections below.

2.6 Allocating revenue that contain a mix of exchange and non-exchange revenue may be onerous. Reporting needs to be meaningful, without unnecessary requirements to subdivide transactions in a way that an NPO would not do for its own internal monitoring purposes.

2.7 Standardising the presentation of revenue in the financial statements can assist understanding of the sources of funding for an NPO. Revenue that has been recognised immediately, but is subject to restrictions, needs to be identified. Categorisation of revenue, particularly if there are different accounting treatments for different types of revenue is also important. Stakeholders may benefit from increased standardisation to access the information they need to understand the extent that revenue can be generally applied to an entity's expenditure. Financial statement presentation is discussed in Chapter x.

2.8 Additional disclosures may be needed to provide transparency and ensure that stakeholders have an accurate picture of the NPO's financial position. Disclosures about material amounts or activities, fundamental to the operations of the NPO, could be designed. This would enable users to have visibility of the nature, amount, timing and uncertainty of revenue as well as items that have not been recognised in the financial statements that could aid understanding for all stakeholders.

2.9 Additional disclosures are likely to lead to additional cost. The costs of preparing additional disclosures maybe be disproportionate to the benefits where the entity is small. Small entities may also not have the resources to provide the information.

Cash Transfers

2.10 Stipulations attached to cash given for the construction of assets raise specific financial reporting challenges. The requirement to use a capital asset as intended may be for a set period, or open-ended. These terms may be considered a performance obligation (condition) with revenue deferred until the risk of repayment has reduced, or alternatively considered a restriction on the use of the asset, with revenue recognised immediately. If treated as a restriction a subsequent change in use would trigger a repayment as a separate event. There may also be a challenge in understanding when a condition is met; over the period that the asset is constructed or acquired, or over the lifetime of the asset.

2.11 When donors can change their mind an NPO is not likely to control the asset. Some cash transfers are received through pledges or bequests, which do not bind the donor. Defining the point at which control passes, which is most likely to be when the cash has been received, will affect the timing of revenue recognition.

2.12 NPOs need to determine how much revenue to recognise when cash is received in arrears. Some cash transfers are paid in arrears, with the cash transfer only falling due once conditions have been met (either in full or in part). NPOs with an expected entitlement may need to determine the amount of revenue to recognise and a receivable for cash they are yet to receive.

Gifts In-Kind

2.13 If an NPO cannot obtain a reliable measurement of an item, the NPO will not be able to recognise any revenue as a result of receiving the donated item. For an NPO to measure the value of a gift in-kind it needs to know the date that it took control of it 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.

2.14 It may be impractical for an NPO to determine a reliable estimate for low value/high volume items given for resale. As a consequence, no revenue would be recognised as the point that the donated items are received. In such circumstances, revenue could be recognised at a later point, i.e. when the items are sold.

2.15 It may be difficult to prepare a reliable estimate for items received for onward distribution even if the value of each item is known, because some items may have a zero value if they cannot be used or sold. Practical difficulties can arise in determining what proportion of the items donated have a value, because it may not be possible to estimate the amount that can be used. The measurement of such items is discussed in the chapter on the measurement of inventory held for use or distribution.

2.16 It is possible that no revenue is ever recognised for items received for onward distribution. As well as not recognising revenue on receipt of a donated items, revenue might also not be recognised subsequently if there are no proceeds. Where the value of individual items is known, revenue (and a corresponding expense) could be recognised when the item of inventory is used. This would provide more useful information about the cost of the NPO's activities.

2.17 Determining the value of donated capital assets, both tangible and intangible may also be challenging and impact the amount of revenue. For example, if housing donated to an NPO for social purposes could be sold for a higher price for use as commercial development it might be argued that the social housing is measured to reflect the value as commercial development land. This may not appropriately reflect the social nature of the NPO's objectives or the service potential that it might obtain from the asset.

Services In-Kind

2.18 Only services in-kind that are under the control of the NPO can be recognised. An NPO can recognise revenue in respect of the services in-kind that have arisen because 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. NPOs need to have records, and processes to demonstrate control.

2.19 If the services in-kind cannot be measured, they cannot be recognised. It can be difficult to reliably measure a service in kind such as assigning a value to volunteers' time. For the NPO to recognise services in-kind as either an asset or an expense, the NPO must be able to reliably measure the service in-kind. Volunteers who donate their time for general activities that do not require specific qualifications or skills may be particularly difficult to measure, because it may be difficult to capture the quantum of time provided as well as estimate the value of the service provided.

2.20 Services provided on a commercial basis may be more easily measured as market prices may exist. Where a service would have been purchased if it had not been donated, it is may be more easily measured and this is a stronger argument for recognition.

2.21 **An NPO that receives services in-kind and recognises revenue, will usually consume the benefits immediately**. This would lead to an expense and revenue being recognised when the services are received to reflect the use of the service provided. Services in-kind can also be provided for the construction of assets, in which case the cost of the asset being constructed should arguably include the value of the services in-kind.

3. Current international guidance

3.1 Currently international guidance on the recognition and measurement of revenue is included in the following standards[1]:

- IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*
- Section 23 and section 24 *IFRS for SMEs*[2]
- IPSAS 23 *Revenue from Non-exchange Transactions* (Taxes and Transfers)
- IPSAS 9 *Revenue from Exchange Transactions*[3]
- IFRS 15 *Revenue from Contracts with Customers*
- IFRS 13 *Fair Value measurement*

3.2 All standards support the gross reporting of inflows of economic benefits received and receivable by the entity on its own account.

3.3 All standards require the initial measurement of revenue to be based on fair value. Fair value may be ascertained by reference to an active market or by appraisal. Where an appraisal uses present value techniques, discounting may be required to reflect the time value of money. Exchange transactions are measured at the consideration received (after discounts) and non-exchange transactions are measured at the fair value at the date of acquisition.

[1] There are a number of other standards that address revenue related accounting. This includes the accounting standards for leases (lease revenues), revenue from construction contracts (IPSAS only), insurance contracts, and provisions, contingent liabilities, and contingent assets. These are not included in the discussion of this topic. Similarly, accounting standards dealing with the recognition and measurement of assets are not included in the discussion of this topic.

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

[3] The International Public Sector Accounting Standards Board has issued ED70, and ED71 to replace IPSAS 9 *Revenue from Exchange Transactions* to reflect IFRS 15, and a linked update of IPSAS 23 *Revenue from Non-Exchange Transactions (Taxes and Transfers).*

3.4 Generally, the guidance provided by the standards is based on the core principle that revenue 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. This applies to revenue from exchange and non-exchange transactions. The guidance also requires that an entity has control over the asset.

3.5 All standards require a minimum presentation of incoming resources. Further disclosures including the disaggregation of significant balances are required. For non-exchange transactions this goes to the nature and type of these transactions.

Non-Exchange Transactions

3.6 IAS 20 provides guidance on the accounting of revenue from government grants. Revenue from government grants is recognised on a systematic basis over the periods that the entity recognises as expenses the related costs that the grants are intended to compensate. IAS 20 allows grant revenue provided for capital assets to be recognised over the life of the asset, either by recognising deferred revenue in the statement of financial position, or by deducting the grant when determining the carrying amount of the asset.[4]

3.7 IFRS for SMEs also addresses the treatment of government grants. Unlike IAS 20, IFRS for SMEs requires that a grant that imposes specified future performance conditions is only recognised as revenue when the conditions are met. There is no option to deduct the grant when determining the carrying amount of the asset, and revenue is recognised as conditions are met, not over the life of the asset.

3.8 The recognition criteria and measurement bases in the *Conceptual Framework* would be applied to other non-exchange revenue, where no specific IFRS applies. Similarly, the recognition criteria and measurement bases in section 2 of IFRS for SMEs, *Concepts and Pervasive Principles* would be applied to other non-exchange revenue for those using IFRS for SMEs. Applying these concepts would in both cases result in revenue and an asset being recognised at fair value when the NPO controls a donated item. If a condition gives rise to a present obligation for the NPO, a liability may be recognised until the obligation has been satisfied.

[4] This standard pre-dates the current IFRS conceptual framework.

3.9 IPSAS 23 describes non-exchange transactions as those transaction where the 'entity receives value without directly giving approximately equal value in exchange'. This includes cash transfers. The standard defines separately conditions and restrictions which form stipulations. Under IPSAS 23, conditions include a "use or return" requirement. The entity is required to return resources to the donor where the conditions are not met. Where conditions are attached to a cash transfer a liability is recognised being the present obligation that arises because of the conditions. Restrictions are stipulations that do not have this use or return requirement. Where restrictions are attached to a cash transfer, no liability is recognised, and revenue is recognised immediately. The main difference between IPSAS 23 and IFRS for SMEs is that IPSAS 23 requires there to be a use or return requirement for a stipulation to be a condition; IFRS for SMEs does not.

3.10 The IPSASB has recently published ED 70, *Revenue with Performance Obligations*, and ED 71, *Revenue without Performance Obligations*. Under these proposals, revenue would be recognised when conditions are met. Where the cash has already been received, a liability is recognised until conditions have been met. Where the conditions are satisfied before the cash is received, an asset will be recognised. Unlike IPSAS 23, ED 71 does not require there to be a use or return requirement before revenue is deferred. In this respect, the proposals in ED 71 and the requirements in IFRS for SMEs are similar.

3.11 ED 71 explicitly addresses cash transfers to acquire or construct a capital asset. It proposes that revenue from such cash transfers would be recognised as the asset is either procured or constructed, and not over the useful life of the asset.

3.12 IPSAS 23 specifically addresses services in-kind. Entities are permitted, but not required, to recognise revenue from services in-kind. Entities are encouraged to disclose the nature and type of major classes of services in-kind received, including those that are not recognised.

Exchange transactions

3.13 IFRS 15 requires revenue to be recognised once performance obligations have been satisfied, which can occur over time or at a single point in time. IFRS 15 only considers transactions where consideration is paid for a good or service based on an agreed contract that has a commercial substance. Allocating revenue to performance obligations will be relevant where revenues from a single transaction need to be determined between exchange and non-exchange elements.

3.14 IFRS for SMEs and IPSAS 9 do not include the concept of performance obligations but require revenue to be recognised as goods are provided or as services are rendered.

Fair value

3.15 IFRS 13 sets out how to measure fair value but does not specify when fair value is to be used (this is addressed in other IFRS). 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 and best use takes into account any legal restrictions over an asset. Consequently, if a building was donated to an NPO with a restriction, the fair value would reflect that restriction.

3.16 In IPSAS, fair value[5] 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 National standards have variously been converged on IFRS, IFRS for SMEs or IPSAS, or set independently of international standards. The differences in revenue recognition between the international standards are therefore replicated to an extent in national standards. Jurisdictions may permit or require exceptions to the general recognition and measurement requirements for revenue, primarily in respect of gifts in-kind and services in-kind. They may also require specified disclosures. These vary across jurisdictions. Further information is provided in Annex A.

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[5] 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 has 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.

4.2 One jurisdiction provides guidance that is generally converged with IFRS for SMEs, with some additional options based on IFRS. The guidance covers government grants, which can be accounted for using either the accrual model (based on IAS 20) or the performance model (based on IFRS for SMEs). Guidance is also provided on other non-exchange revenue; this guidance follows the performance model in IFRS for SMEs. This may result in government grants and cash transfers from other sources having different accounting treatments. To avoid this inconsistency, some sector specific guidance disallows the use of the accrual model. This jurisdiction also provides specific guidance for gifts in-kind and services in-kind:

- Entities must consider whether gifts in-kind can be measured reliably and whether the benefits of recognising the gifts in-kind as assets outweigh the costs. Where it is impractical to estimate the value of a donated item with sufficient reliability, no asset (and therefore no revenue) is recognised on receipt; revenue is recognised in the financial period that the donated item is sold. In the absence of an open market, a valuation may be derived from other sources, for example the cost to the donor, or the estimated resale value (after deducting costs to sell). Where items are distributed at no cost, an expense and revenue are recognised at the same time.
- Services in-kind are recognised as revenue and an expense when they can be measured reliably. Services that an entity would otherwise have purchased are recognised at the value to the entity; other services are recognised at a fair value. Disclosures are required where services in-kind are not recognised.

4.3 One jurisdiction provides guidance that is generally converged with IFRS. Additional guidance is provided on the application of IFRS 15 to NPOs, particularly where services are provided to third-party beneficiaries. Additional guidance is provided on non-exchange revenue, which is recognised immediately except where the transaction requires the NPO to acquire or construct a non-financial asset. In these circumstances, revenue is recognised as the entity satisfies the conditions attached to the transfer (i.e., as the asset is acquired or constructed).

- No specific guidance is provided on the recognition of gifts in-kind (as opposed to in cash), although NPOs are encouraged to disclose inventory held but not recognised.
- An NPO can recognise volunteer services at fair value if they can be measured reliably, regardless of whether the services would have been purchased if they had not been donated. An NPO is encouraged to

disclose information about volunteer services it receives, including those it has not recognised in the financial statements.

4.4 One jurisdiction provides guidance for NPOs generally converged with IPSAS, with some additional guidance for NPOs included. Simplified guidance is provided for smaller organisations but follows the principles in IPSAS 23; that is donations are recognised immediately unless there are conditions including a use or return requirement. This standard setter also provides specific guidance for gifts in-kind and services in-kind:

- Guidance for larger organisations allows an option not to recognise gifts in-kind that meet the definition of inventories if it is not practicable to reliably measure their current value. Gifts in-kind for resale give rise to 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. 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.
- Larger entities may recognise volunteering services that can be reliably measured at fair value. For smaller entities recognition of volunteering services is optional, with a requirement for information about significant services received to be disclosed.

4.5 Two jurisdictions have developed national standards not based on international standards and require non-exchange revenue to be recognised immediately where the donations do not include conditions. In one jurisdiction where the donation does include conditions, revenue recognition is deferred only where a use or return requirement is attached to the condition. This approach is similar to that in IPSAS 23. Net assets with donor restrictions (i.e., where there is no use or return requirement) must be presented separately from net assets without restrictions.

- This jurisdiction 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. NPOs are not required to recognise contributions of art, historical treasures, and similar items (sometimes referred to as heritage assets) if they are added to collections.
- Services in-kind are recognised (at fair value) where they either create or enhance a non-financial asset; or require skilled labour that would need to have been purchased if not provided by donation.

4.6 In the other jurisdiction where the donation includes conditions, the standard setter provides an accounting policy choice for the recognition of donations. One policy option permits donations with contributions to be recognised using a deferral method, where the donations are recognised in the period related to the corresponding expenses. This approach is similar to that in IAS 20 (where the cash transfer is not related to an asset). The alternative approach permits revenue to be recognised immediately, but presented as part of a separate restricted fund, which will also show the related expenses. This national standard setter is currently reviewing their guidance on contributions. This standard setter also provides specific guidance for gifts in-kind and services in-kind

- An entity may choose to recognize contributed capital materials and services when current 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, the restricted fund method may be used.
- Services in-kind may be recognised at fair value if they can be measured reliably and would otherwise have been purchased for use in the normal course of operations or to construct an asset.

5. Alternative financial reporting treatments

5.1 Because accounting for revenue from exchange transactions does not typically present unique challenges for NPOs, the alternative financial reporting treatments focus on accounting for revenue from non-exchange transactions. Accounting for revenue from exchange transactions would follow the relevant international standard with no variations proposed.

5.2 IFRS for SMEs forms the starting point for the first four alternatives with the remaining two alternatives based on IPSAS and IFRS respectively.

5.3 Alternative 1 requires all revenue to be recognised in accordance with IFRS for SMEs. This would mean for non-exchange revenue other than government grants, that the concepts and principles in IFRS for SMEs would be used to apply to other non-exchange transactions. Additional NPO specific guidance would be provided. In applying these principles NPOs would be required to recognise revenue from services in-kind and gifts in-kind where they can be reliably measured.

5.4 Alternative 2 requires exchange revenue to be recognised in accordance with IFRS for SMEs. Non-exchange revenue would use the principles in IAS 20 to extend the treatment of government grants to other non-exchange revenue. Additional NPO specific guidance would be provided. This is intended to provide for the consistent treatment of all non-exchange revenue. As with alternative 1 in applying these principles NPOs would be required to recognise revenue from services in-kind and gifts in-kind where they can be reliably measured.

5.5 Alternative 3 requires exchange revenue to be recognised in accordance with IFRS for SMEs. Non-exchange revenue would be accounted for using the principles in IPSAS. Additional NPO specific guidance would be provided. Consequently, the recognition of revenue from services in-kind would be encouraged but not mandatory, but all gifts in-kind would be required to be recognised where they can be reliably measured.

5.6 Alternative 4 requires exchange revenue to be recognised in accordance with IFRS for SMEs. Non-exchange revenue would be accounted for using the principles in IPSAS. In addition, exceptions from various national standards would be considered for inclusion as part of NPO specific guidance. The exceptions could:

- Permit NPOs to recognise revenue from gifts in-kind donated for resale at point of sale rather than on receipt, where measuring their value is impractical.
- Permit NPOs to not recognise inventory or revenue on receipt of gifts in-kind donated for distribution, where measuring their value is impractical.
- Permit NPOs to recognise revenue and an expense when items are distributed or used to provide services.
- Require additional disclosures where an NPO uses one of the permitted exceptions.

5.7 Alternative 5 requires all revenue to be recognised in accordance with IPSAS. Additional NPO specific guidance would be provided Consequently, the recognition of revenue from services in-kind would be encouraged but not mandatory, but all gifts in-kind would be required to be recognised where they can be reliably measured.

5.8 Alternative 6 requires all revenue to be recognised in accordance with IFRS. Non-exchange revenue would use the principles in IAS 20 to extend the treatment of government grants to other non-exchange revenue. Additional NPO specific guidance would be provided. This is intended to provide for the consistent treatment of all non-exchange revenue. As with alternatives 1 and 2 in applying these principles NPOs would be required to recognise revenue from services in-kind and gifts in-kind where they can be reliably measured.

5.9 A specific matter for comment seeks views on whether the exceptions proposed in alternative 4 should be available in the other alternatives.

5.10 The requirements of national standards are aligned as best possible with the alternatives proposed. Readers may, however, form different views on which alternative provides the nearest match. In coming to conclusions about the nearest match, more weight has been given to the treatment of non-exchange revenue than to the treatment of exchange revenue.

	Description	Advantages	Disadvantages
Alternative 1 – Use recognition and measurement principles from IFRS for SMEs with additional NPO specific guidance	• Revenue from exchange transactions is recognised as goods are provided or as services are rendered. • Government grants are recognised as revenue as conditions (performance obligations) are satisfied • Other non-exchange revenue is recognised in accordance with the recognition criteria and measurement bases in the section 2, *Concepts and Pervasive Principles*. • No specific requirements for gifts in-kind or services in-kind.	Technical • Non exchange consistent with IFRS and follows without exception IFRS for SMEs. • Broadly consistent with IPSAS. Practical • Specific guidance may assist NPOs in their potentially complex arrangements. Stakeholder • Provides a framework for recognising revenue and guidance that might aid consistency.	Technical • Exchange transactions not consistent with IFRS • NPOs may rely on general materiality provisions to avoid recognising gifts in-kind and services in-kind. Practical • NPOs may not have systems in place to recognise all services in-kind and gifts in-kind, particularly high volume, low value donations for resale and those services that would not otherwise been purchased. Stakeholder • The treatment of government grants is inconsistent with grants from other providers, impairing comparability within an NPO's financial statements. Cost/benefit • The cost of recognising and measuring all gifts in-kind and services in-kind on receipt may outweigh the benefits, particularly for smaller NPOs.
Alternative 2 – Use recognition and measurement principles from	• Revenue from exchange transactions is recognised as goods are provided or as services are rendered.	Technical • Follows IFRS for SMEs and consistent with IPSAS for exchange revenue. • Consistent with treatment of government grants in IAS 20 for non-exchange revenue.	Technical • Exchange transactions not consistent with IFRS • Not consistent with IFRS for SMEs or IPSAS for non-exchange revenue.

	Description	Advantages	Disadvantages
IFRS for SMEs for exchange revenue. Recognise non-exchange revenue using the principles in IAS 20. NPO specific guidance is provided.	• All non-exchange revenue is recognised on a systematic basis over the periods in which the entity recognises as expenses the related costs for which the grants are intended to compensate. • All gifts in-kind and services in-kind are recognised on receipt (subject to any conditions being satisfied and it being possible to measure them reliably).	Practical • Specific guidance may assist NPOs in their potentially complex arrangements. • The options available in IAS 20 may offer options that are easier to implement. Stakeholder • Provides a framework for recognising revenue and guidance that might aid consistency.	• NPOs may rely on general materiality provisions to avoid recognising gifts in-kind and services in-kind. Practical • NPOs will need to be able to estimate the period in which related expenses will be recognised. • NPOs may not have systems in place to recognise all services in-kind and gifts in-kind, particularly high volume, low value donations for resale and those services that would not otherwise been purchased. Stakeholder • Comparability and transparency may be reduced if different approaches are taken to non-exchange guidelines. Cost/benefit • The cost of recognising and measuring all gifts in-kind and services in-kind on receipt may outweigh the benefits, particularly for smaller NPOs.
Alternative 3 – Use recognition and measurement principles from IFRS for SMEs for	• Revenue from exchange transactions is recognised as goods are provided or as services are rendered. • Non-exchange revenue is recognised as conditions (performance obligations) are	Technical • Consistent with IPSAS and draws on guidance specifically written for non-exchange transactions • Broadly consistent with IFRS for SMEs Practical	Technical • Not consistent with IFRS Stakeholder • Allowing a choice of accounting policy for services in-kind may mean that NPOs'

	Description	Advantages	Disadvantages
exchange revenue. Recognise non-exchange revenue using the principles in IPSAS 23. NPO specific guidance is provided.	satisfied. Conditions always include a "use or return" requirement. • All gifts in-kind are recognised on receipt (subject to any conditions being satisfied and it being possible to measure them reliably). • NPOs are encouraged but not required to recognise gifts in-kind.	• Pragmatic approach, particularly for those smaller NPOs that may have difficulty measuring revenue from services in-kind at the point of receipt. Stakeholder • Increased consistency of revenue recognised for revenue with conditions. • Greater disclosure of non-exchange transactions.	financial statements are not comparable with other NPOs. Cost/benefit • The cost of recognising and measuring all gifts in-kind on receipt may outweigh the benefits, particularly for smaller NPOs.
Alternative 4 – Use recognition and measurement principles from IFRS for SMEs for exchange revenue. Recognise non-exchange revenue using the principles in IPSAS 23. Introduce exceptions to the requirements for gifts in-kind based on some national standards. NPO	• Revenue from exchange transactions is recognised as goods are provided or as services are rendered. • All non-exchange revenue is recognised as conditions (performance obligations) are satisfied. Conditions always include a "use or return" requirement. • Permit NPOs to recognise revenue from gifts in-kind donated for resale at point of sale rather than on receipt, where measuring their value is impractical. • Permit NPOs to not recognise inventory or revenue on receipt of gifts in-kind donated for distribution, where measuring their value is impractical. Permit NPOs to recognise revenue and an expense when items are distributed or used to provide services.	Technical • Core recognition principles consistent with treatment of government grants in IFRS for SME. • Draws on guidance specifically written for non-exchange transactions Practical • Pragmatic approach, particularly for those smaller NPOs that may have difficulty measuring revenue from gifts in-kind and services in-kind at the point of receipt. Stakeholder • Increased consistency of revenue recognised where there are conditions. • Additional disclosures may overcome differences in recognition of gifts in-kind and services in-kind in the financial statements.	Technical • Not consistent with IFRS • Drawing on different frameworks might create gaps or lead to conceptual inconsistencies. Stakeholder • The use of exceptions may lead to lack of transparency.

	Description	Advantages	Disadvantages
specific guidance is provided.	• Permit (but do not require) NPOs to recognise services in-kind as revenue and an expense. • Require additional disclosures where an NPO uses one of the permitted exceptions.	• Provides a framework for recognising revenue and guidance that might aid consistency. Cost/benefit • Exceptions may reduce or avoid additional costs.	
Alternative 5 – Use recognition and measurement principles from IPSAS with additional NPO specific guidance	• Revenue from exchange transactions is recognised as goods are provided or as services are rendered. • Non-exchange revenue is recognised as conditions (performance obligations) are satisfied. Conditions always include a "use or return" requirement. • All gifts in-kind are recognised on receipt (subject to any conditions being satisfied and it being possible to measure them reliably). • NPOs are encouraged but not required to recognise services in-kind.	Technical • Follows IPSAS without exception and draws on guidance specifically written for non-exchange transactions • Broadly consistent with IFRS for SMEs Practical • Pragmatic approach, particularly for those smaller NPOs that may have difficulty measuring revenue from services in-kind at the point of receipt. Stakeholder • Increased consistency of revenue recognised where there are conditions. • Greater disclosure of non-exchange transactions. • Provides a framework for recognising revenue and guidance that might aid consistency.	Technical • Not consistent with IFRS for exchange transactions pending adoption of ED71 • NPOs may rely on general materiality provisions to avoid recognising gifts in-kind. Practical • NPOs may not have systems in place to recognise all gifts in-kind, particularly high volume, low value donations for resale. Stakeholder • Allowing a choice of accounting policy for services in-kind may mean that NPOs' financial statements are not comparable with other NPOs. Cost/benefit • The cost of recognising and measuring all gifts in-kind on receipt may outweigh the benefits, particularly for smaller NPOs.

INTERNATIONAL FINANCIAL REPORTING FOR NON PROFIT ORGANISATIONS

	Description	Advantages	Disadvantages
Alternative 6 – Use recognition and measurement principles from IFRS 15 (exchange revenue) and IAS 20 (government grants and, by analogy other non-exchange revenue) with additional NPO specific guidance	• Revenue from exchange transactions is recognised as performance obligations are satisfied. • All non-exchange revenue is recognised on a systematic basis over the periods in which the entity recognises as expenses the related costs for which the grants are intended to compensate. • All gifts in-kind and services in-kind are recognised on receipt (subject to any conditions being satisfied and it being possible to measure them reliably).	Technical • Consistent with IFRS Practical • Specific guidance may assist NPOs in their potentially complex arrangements. Stakeholder • Provides a framework for recognising revenue and guidance that might aid consistency.	Technical • Not consistent with IFRS for SMEs or IPSAS. • NPOs may rely on general materiality provisions to avoid recognising gifts in-kind and services in-kind. Practical • NPOs will need to be able to estimate the period in which related expenses will be recognised. • NPOs may not have systems in place to recognise all services in-kind and gifts in-kind, particularly high volume, low value donations for resale and those services that would not otherwise been purchased. Stakeholder • Comparability and transparency may be reduced if different approaches are taken to non-exchange guidelines. Cost/benefit • The cost of recognising and measuring all gifts in-kind and services in-kind on receipt may outweigh the benefits, particularly for smaller NPOs.

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Specific Matters for Comment

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.

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.

If you favour an alternative other than alternative four, do you consider that the exceptions to the recognition and measurement of gifts in-kind and services in-kind should be available under your preferred option?

INTERNATIONAL FINANCIAL REPORTING FOR NON PROFIT ORGANISATIONS

Annex A – Revenue

	IFRS and IPSAS	UK	Australia	New Zealand	Canada	USA
Alternative 1 – Use recognition and measurement principles from IFRS for SMEs with additional NPO specific guidance	IFRS for SMEs provides specific guidance for revenue from exchange transactions and government grants; section 2 provides concepts and pervasive principles for other non-exchange revenue.					
Alternative 2 – Use recognition and measurement principles from IFRS for SMEs for exchange revenue. Recognise non-exchange revenue using the principles in IAS 20. NPO specific guidance is provided.					Donations with conditions can be recognised using the deferral method, with donations recognised in the period related to the corresponding expenses (depreciation if capital). Alternatively, it is permitted for	

	IFRS and IPSAS	UK	Australia	New Zealand	Canada	USA
					revenue to be recognised immediately, but presented as part of a separate restricted fund, showing the related expenses. Services in-kind are permitted to be recognised at fair value if they can be measured reliably and would otherwise have been purchased or to construct an asset.	
Alternative 3 – Use recognition and measurement principles from IFRS for SMEs for exchange revenue. Recognise non-exchange revenue using						

	IFRS and IPSAS	UK	Australia	New Zealand	Canada	USA
the principles in IPSAS 23. NPO specific guidance is provided.						
Alternative 4 – Use recognition and measurement principles from IFRS for SMEs for exchange revenue. Recognise non-exchange revenue using the principles in IPSAS 23. Introduce exceptions to the requirements for gifts in-kind based on some national standards. NPO specific guidance is provided.		Revenue from government grants and other non-exchange revenue are permitted to be recognised as conditions are satisfied. Revenue from gifts in-kind are permitted to be recognised when the items are sold or distributed when it is impractical to recognise inventory on receipt. Items distributed at no cost, are recognised as an expense and revenue when issued.		.		

	IFRS and IPSAS	UK	Australia	New Zealand	Canada	USA
		Services in-kind are recognised when they can be reliably measured. Services that would have otherwise been purchased are recognised at the value to the entity; other services are recognised at a fair value.				
Alternative 5 – Use recognition and measurement principles from IPSAS with additional NPO specific guidance	IPSAS 9 requires revenue from exchange transactions to be recognised as goods are provided or as services are rendered. IPSAS 23 and ED 71 require donations to be recognised as conditions are satisfied and provide exceptions			Revenue is required to be recognised as conditions are satisfied. NPOs are permitted not to recognise gifts in-kind that meet the definition of inventories as assets if it is not practicable to reliably measure their current value.		NPO are required to recognise donations with conditions as the conditions are satisfied. NPOs are not required to recognise contributions of art, historical treasures, and similar items if they are added to collections.

	IFRS and IPSAS	UK	Australia	New Zealand	Canada	USA
	for the recognition of services in-kind.			Gifts in-kind for resale give rise to revenue when they are sold. No revenue is recognised in respect of gifts in-kind for distribution to beneficiaries. NPOs are permitted, but not required, to recognise revenue from services in-kind that can be reliably measured at fair value		Additional guidance Is provided on assessing fair value for gifts in-kind and donated fixed assets. Services in-kind are required to be recognised (at fair value) where they either create or enhance a non-financial asset; or require skilled labour that would need to have been purchased if not provided by donation.
Alternative 6 – Use recognition and measurement principles from IFRS 15 (exchange revenue) and IAS 20 (government grants and,	IFRS 15 requires exchange revenue to be recognised as performance obligations are satisfied.		Revenue is required to be recognised as performance obligations are satisfied.			

	IFRS and IPSAS	UK	Australia	New Zealand	Canada	USA
by analogy other non-exchange revenue) with additional NPO specific guidance	IAS 20 requires government grants with conditions to be recognised on a systematic basis over the periods in which the entity recognises as expenses the related costs for which the grants are intended to compensate.		Non-exchange revenue is recognised immediately except where the transaction requires the NPO to acquire or construct a non-financial asset Under AASB 1058, an NPO can recognise volunteer services at fair value if they can be measured reliably, regardless of whether the services would have been purchased if they had not been donated.			

	IFRS and IPSAS	UK	Australia	New Zealand	Canada	USA
Standards References	IFRS 15 *Revenue from Contracts with Customers*; IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*; *Conceptual Framework;* Section 2, section 23 and section 24 IFRS for SMEs; IPSAS 9 *Revenue from Exchange Transactions*; 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 9 *Revenue from Exchange Transactions*; 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*; CPA Canada Public Sector Accounting Handbook, PS 4210, *Contributions – revenue recognition*	Accounting Standards Codification (ASC) 958-605