INTERNATIONAL FINANCIAL REPORTING
FOR NON PROFIT ORGANISATIONS

Technical Advisory Group Issue Paper

AGENDA ITEM: TAGED08-01
29 & 30 September 2022 – Hybrid

Revenue

Summary	This paper summarises respondents' feedback to the non-exchange revenue issue of the Consultation Paper. It summarises the ongoing developments in revenue accounting under the *IFRS for SMEs* Accounting Standard and IPSAS and makes proposals for developing the non-exchange revenue section of INPAG.
Purpose/Objective of the paper	To allow TAG members to consider the responses to Issue 3 of Part 2 of the Consultation Paper, and comment on the appropriateness of the proposals for developing the non-exchange revenue section of INPAG in the light of those responses. To allow TAG members to consider the likely changes to revenue accounting under the *IFRS for SMEs* Accounting Standard and IPSAS, and to provide guidance on the approach to be taken in developing INPAG.
Other supporting items	None
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Actions for this meeting	<u>Advise</u> on: • The approach to incorporating the proposals for the *IFRS for SMEs* Accounting Standard and IPSAS in developing the non-exchange revenue requirements of INPAG. • Accounting for donations and grants • Exceptions to the recognition and measurement requirements

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Revenue

1. Consultation Paper Proposal

1.1 The recognition and measurement of revenue (in particular non-exchange revenue) has been identified as a specific issue for non-profit organisations.

1.2 The paper summarises the feedback to the Consultation Paper, including:

- What are the overarching principles for the recognition and measurement of incoming resources from 'non-exchange' transactions?
- What is the recognition and measurement process when receiving donations that are used to fulfil requirements in subsequent periods?
- When should donations to purchase a capital asset be recognised?
- When should services in-kind be recognised and how are they measured?
- When should gifts in-kind be recognised and how should they be measured?

1.3 It also sets out the current technical landscape on revenue, specifically the proposed updates in the Third Edition of the IFRS for SMEs Accounting Standard and the development of revised revenue standards by the International Public Sector Standards Board.

1.4 The Consultation Paper summarised the financial reporting challenges for NPOs as follows:

Issue	Cash Transfers	Gifts In-Kind	Services In-Kind
Recognition – control			
Recognition – reliable measurement			
Recognition – timing			
Measurement			
Disclosure			

Key: High significance Medium significance Low significance

1.5 The Consultation Paper only considered non-exchange revenue as no sector specific issues regarding exchange revenue (revenue from commercial type arrangements) were identified.

1.6 The Consultation Paper proposed that accounting for bequests and endowments would not be covered in the initial INPAG but would rather be considered in a later phase.

Alternative financial reporting treatments

1.7 The Consultation Paper proposed four alternative financial reporting treatments for developing guidance for accounting for non-exchange revenue. These were:

1.8 Alternative 1 requires all non-exchange revenue to be recognised in accordance with the *IFRS for SMEs* Accounting Standard. Additional NPO-specific guidance would be provided.

1.9 Alternative 2 requires non-exchange revenue to be recognised using the principles in IAS 20 to extend the treatment of government grants to other non-exchange revenue (i.e., to recognise revenue on a systematic basis over the periods that the entity recognises as expenses the related costs).

1.10 Alternative 3 requires non-exchange revenue to be accounted for using the principles in IPSAS 23 (i.e., revenue is usually recognised when an NPO controls the assets but is deferred where there are conditions).

1.11 Alternative 4 requires non-exchange revenue to be accounted for using the principles in IPSAS. In addition, exceptions drawn from various national standards would be considered for inclusion as part of NPO-specific guidance.

1.12 A specific matter for comment sought views on whether the exceptions proposed in Alternative 4 should be available in the other alternatives.

2. Consultation Paper Responses

Overall approach

2.1 Of those responses that discussed the question, over 80% agreed with the description of the issue on non-exchange revenue. The responses raised some points that will need to be considered in developing the guidance:

- Control. One response expressed concern over the term "control" in respect of revenue recognition. It proposed "entitlement" as this would represent the control over the rights to the economic resource. The respondent considered this easier for preparers to interpret and apply in their financial statements.

- Capital grants. Some responses suggested that insufficient emphasis had been given to capital grants in the Consultation Paper.
- Endowments and bequests were specifically excluded from the scope of the Consultation Paper; however, some responses considered that these funding sources should have been covered.
- Exchange revenue and non-exchange revenue. Some responses suggested that the Consultation Paper did not provide sufficient detail on distinguishing between exchange and non-exchange revenue, or on how to account for transactions with both exchange and a non-exchange components.
- Receipt in arrears. One response suggested that more emphasis on transactions where funds were received in arrears was required.
- Subsidised prices. One response suggested that more detail was required to cover those cases where goods or services are provided by an NPO at subsidised prices.
- Cash accounting. One response considered that only cash transactions should be recognised.

2.2 Of those responses that discussed the question, over 70% considered that the list of alternatives was exhaustive. Additional alternatives and other comments made included the following:

- One respondent did not favour using for-profit standards as the basis for INPAG (and appears to include IPSAS within this category) and would prefer a wholly new framework be developed to address NPO-specific issues. The respondent felt that the "Companion guide for not-for-profits to the IFRS for SMEs", published by ACCA[1] addresses NPO-specific issues and was therefore a useful interim step.
- Government and non-government grants should be accounted for in the same manner. This would produce a variation of Alternative 1.
- Do not distinguish between exchange and non-exchange revenue (the approach adopted in Australia and in the recent IPSASB Exposure Drafts

[1] https://www.accaglobal.com/gb/en/technical-activities/technical-resources-search/2015/october/companion-guide-nfp-ifrs-sme.html

(EDs) on revenue). Instead, a distinction is drawn between revenue with performance obligations and other revenue. Some responses proposed developing an alternative based on the recent IPSASB EDs (ED 70, *Revenue with Binding Arrangements* and ED 71, *Revenue without Binding Arrangements*.

2.3 Of those responses that discussed the question, over three-quarters agreed with the advantages and disadvantages for each alternative set out in the Consultation Paper. The responses made the following points that will need to be considered in developing the guidance.

- One response considered that the cost benefit analysis of the alternatives was based on judgment calls rather than more substantive evidence.
- Recognising services in-kind as revenue/expenses in the statements is likely to confuse some less-sophisticated users and may not be understood as a concept by some NPOs (Alternatives 1 and 2).
- Recognising services in-kind as revenue may result in more onerous reporting requirements for NPOs operating in jurisdictions where external reporting requirements increase in line with increases in revenue (for example where requirements are determined by reference to annual revenue) (Alternatives 1 and 2).
- Services in-kind may be recognised as revenue and an asset rather than revenue and an expense if the facts and circumstances satisfy the recognition criteria of an asset.
- Accounting for government grants differently than other grants under Alternative 1 was seen as an advantage in one response and a disadvantage in another response.
- Alternatives using conditions may cause difficulties where funding agreements are poorly worded.
- The Consultation Paper does not set out what is meant by the NPO being able to measure gifts in-kind reliably in the four alternatives.
- One response stated that Alternative 2 is not suitable for use with unrestricted funds, which the entity can spend it in any way it wishes at any time. This should be recognized as income on receipt.

2.4 An analysis of the responses to this issue can be found in the Annex A.

Alternative Financial Reporting Treatments

2.5 While there was no consensus as to the preferred alternative, the preferences in the responses, along with the comments made, do provide an indication of the overall approach preferred by respondents.

2.6 A significant majority of respondents favour alternatives that use a performance approach (i.e., that recognise revenue as performance conditions are satisfied) rather than deferring revenue to match expenditure. Of those responses that expressed a preference, 35% supported Alternative 4 (based on IPSAS, which recognises non-exchange revenue as conditions (which must include a use or return condition) are satisfied); 27% supported Alternative 1 (based on the *IFRS for SMEs* Accounting Standard, which recognises government grants as performance conditions are satisfied); and only 12% supported Alternative 2 (based on IFRS, which defers revenue to match expenditure). A number of responses that did not support any option suggested an approach based on the accounting proposed in the IPSASB's recent EDs on revenue, which also recognise revenue as performance conditions are satisfied.

2.7 It should be noted that most responses did not distinguish between conditions under IPSAS 23 (where a "use or return" condition must be present) and conditions under the *IFRS for SMEs* Accounting Standard and the IPSASB EDs (where a "use or return" condition is not required)[2]. One of the responses that supported Alternative 2 suggested that revenue from gifts in-kind and services in-kind should also be deferred where this reflects the benefit of the goods or services to the NPO.

2.8 Amongst respondents there was clear support for the inclusion of exceptions for gifts in-kind and services in-kind, due to the practical difficulties some NPOs would experience, particularly if the relevant information systems were not in place. Where responses supported an approach based on IPSAS, they favoured Alternative 4 which included such exceptions. There was clear support for using these exceptions in other alternatives, and a number of responses that supported Alternative 1 specifically suggested these exceptions be adopted. Some responses considered that the use of the exceptions would assist with the cost/benefit analysis.

[2] One response did note that in the UK a condition that allows for the recovery, in certain circumstances, of a resource by the giver does not necessarily prevent the recognition of revenue if repayment is not probable, and that this approach is generally considered to work well in practice.

2.9 A number of issues were identified that will need to be considered in developing the guidance. Paragraphs 2.10 to 2.17 set out the key issues.

2.10 Recognition and measurement of gifts in-kind and services in-kind. There was little consensus about the circumstances in which gifts and services in-kind should be recognised, and how they should be measured. Underlying some of the responses was the concept of materiality, although this was not always mentioned directly. Different types of gifts in-kind generated different views.

- *Donations of fixed assets.* The responses generally considered that such items, and the corresponding revenue, should be recognised because of their significance.
- *Goods donated for resale*. In general, permitting revenue from goods donated for resale to be recognised when the items were sold was supported.
- *Goods donated for use or onward distribution*. There were different views as to whether revenue (and the related expenses) from such items should be recognised, with materiality being one factor. One response suggested that consideration should be given to recognising donated goods for onward distribution at fair value at the point of receipt where the cost to the donor is known, cost to the donor being a proxy for fair value.
- *Donated services.* There was a significant (but not universal) acceptance that measuring the value of services in-kind could be difficult, and that this would justify permitting NPOs to not recognise revenue (and matching expenses). Some suggestions were that revenue and expenses should only be recognised where donated services would otherwise be purchased; donations of time should be differentiated between those donated by businesses or professionals and those provided by general volunteers; and that donated services should be recognised where they are material to the NPO.

2.11 Comparability was raised in two differing contexts. Government and non-government grants should be accounted for in the same manner to ensure comparability; and some responses suggested that the recognition of services in-kind is needed to ensure comparability between NPOs.

2.12 Disclosures were identified as being essential to understanding the financial statements, for example in relation to the use of exceptions and in distinguishing capital and revenue grants.

2.13 Non-performance conditions. Responses highlighted the need for the guidance to address non-performance conditions (such as time) as well as performance conditions.

2.14 Conditions and restrictions. Responses highlighted the need for guidance on the distinction between conditions and restrictions.

2.15 Consistency between grantor and recipient. One response suggested that it is important that there is consistency between the provider of the funds and the recipient of the funds. In other words, if the guidance results in the grantor recognizing an expense, it should not allow the recipient to defer recognition. If the transaction results in an asset for one of the organizations that is party to the transaction, it should not allow the other organization to recognize an asset. If the grantor doesn't have an asset, then the recipient cannot have a liability.[3]

2.16 Pledges. One response commented that care should be taken to ensure that the criteria for the recognition of income and specifically non-exchange income excludes income which is promised but where the NPO has no means to enforce payment by the potential donor.

2.17 Simplicity and practicality of implementation is seen by the responses as important for NPOs. This issue was cited in support of Alternatives 1, 2 and 4.

Practical Considerations

2.18 Over three-quarters of the responses that commented on this question identified practical issues. The most significant issues identified are in paragraphs 2.19 to 2.26.

2.19 Audit thresholds, where these are based on revenue. Options that defer revenue until activities are undertaken may result in a more even recognition of revenue; and may therefore avoid an NPO being above the audit threshold in some years, and below it in others. One response suggested a separate statement that would complement the income statement for non-exchange transactions, on the basis that this could avoid difficulties with audit thresholds.

2.20 The Secretariat is of the view that audit thresholds are a matter for NPO regulators and should not be considered by the IFR4NPO project. The more

[3] This approach would be inconsistent with the use of exceptions; a donor may recognise an expense for services provided but the recipient NPO may not recognise revenue. Accounting differences may also arise from the recipient and the donor having different information available to them regarding the satisfaction of any performance conditions.

important issue is to standardise the financial reporting so that these regulators can make their decisions based on higher quality and more consistent information.

2.21 Taxation. In a similar manner to audit thresholds, tax thresholds or amounts may be affected by options that increase or decrease revenue, depending on the basis for taxing NPOs in a particular jurisdiction.

2.22 Measurement of gifts in-kind. Some responses identified practical difficulties in measuring gifts in-kind beyond those discussed in the Consultation Paper. In some jurisdictions, there may be no developed market against which the goods could be measured; donated items may be fully depreciated or require additional resources to bring them to working condition; and items may be forced on to NPOs and rarely put to use.

2.23 Measurement of services in-kind. NPOs may need a systematic method of recording volunteer hours and allocating reasonable prices to the services provided to recognise services in-kind. One response appeared to disagree with "the claim that non-exchange transactions cannot be entered into financial statements unless they can be reliably measured[4]" noting that private sector accounts rely heavily on estimation to support recognition. Other responses consider it is unlikely that an NPO would purchase services and facilities equivalent to those that have been donated on the grounds of affordability so establishing a reliable value is very problematic.

2.24 Exchange and non-exchange elements. Consideration should be given as to how NPOs should report on transactions which have both an exchange and non-exchange element.

2.25 Non-performance conditions. Some grants include conditions that are not based on the performance of the NPO. Specific guidance will be required on this issue.

2.26 Capacity Building. Some responses identified a need for capacity building and good communications to allow NPOs to be able to successfully implement the proposed guidance. In part, this reflected the significant levels of judgment that are required in accounting for non-exchange revenue.

Question 1: Do TAG members have any comments on the response to the Consultation Paper?

[4] IFRS Accounting Standards, the *IFRS for SMEs* Accounting Standard and IPSAS all only permit an item to be recognised if it can be measured reliably.

3. Developments in the *IFRS for SMEs* Accounting Standard

3.1 The IASB issued an ED of the third edition of the *IFRS for SMEs* Accounting Standard, for consultation on 8 September 2022. The analysis in this paper is based on a draft version of this ED, and is therefore subject to change.

3.2 The *IFRS for SMEs* Accounting Standard has two sections covering revenue. Section 24, Government grants, addresses accounting for non-exchange transactions. This section (which contains seven paragraphs) sets out the high-level principles to be followed without providing any further details.

3.3 By contrast, Section 23, Revenue from contracts with customers, is now based on the principles in IFRS 15. This revised section, at 129 paragraphs, appears significantly more detailed than most other sections within the *IFRS for SMEs* Accounting Standard.

3.4 Some of the more detailed guidance in Section 23 may now be relevant in developing guidance for non-exchange transactions. In the context of government grants, Section 24 sets out the principles as follows:

- A grant that does not impose specified future performance conditions on the recipient is recognised in income when the grant proceeds are receivable.
- A grant that imposes specified future performance conditions on the recipient is recognised in income only when the performance conditions are met.
- Grants received before the revenue recognition criteria are satisfied are recognised as a liability.

3.5 The requirements of Section 23 are summarised below. The terminology used differs from that in Section 24 (for example, Section 24 refers to performance conditions whereas Section 23 refers to promises in a contract), but the underlying principles are the same.

3.6 Section 23 adopts the same five step model as found in IFRS 15.
Step 1: Identify the contract(s) with a customer
Step 2: Identify the promises in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the promises in the contract
Step 5: Recognise revenue when (or as) the entity satisfies a promise

The steps, and the key issues associated with each step, are set out in Annex B.

4. Developments in IPSAS

4.1 The IPSASB issued two Exposure Drafts (EDs) in February 2020 that were intended to replace the existing revenue IPSAS. ED 70, *Revenue with Performance Obligations* and ED 71, *Revenue without Performance Obligations*. Since then, the IPSASB's thinking has evolved, and one IPSAS covering all revenue is being developed.

4.2 The analysis in this paper is based on the draft text presented to the IPSASB at its June 2022 meeting and is subject to change. A new exposure draft is expected at the beginning of 2023, with the final IPSAS expected to be completed around the end of 2023.

4.3 The draft new IPSAS notes that revenue might arise from transactions without binding arrangements (contracts and equivalent arrangements) or from transactions with binding arrangements. This is the primary distinction in the draft new IPSAS.

4.4 Revenue from transactions without binding arrangements is recognised in surplus or deficit on receipt, as there are no obligations imposed on the recipient. This is consistent with the approach taken in Section 24 of the *IFRS for SMEs* Accounting Standard.

4.5 For revenue from transactions with binding arrangements, the draft new IPSAS adapts the five-step model in IFRS 15 to apply to a wider range of obligations, referred to as compliance obligations.

4.6 The draft new IPSAS defines a compliance obligation as "*an entity's promise in a binding arrangement to either use resources internally for distinct goods or services or transfer distinct goods or services to a purchaser or third-party beneficiary.*" Compliance obligations may therefore be closer to the performance conditions in Section 24 of the *IFRS for SMEs* Accounting Standard than the promises in Section 23.

4.7 The inclusion of the wider range of obligations covered by compliance obligations means that the draft new IPSAS includes additional or modified guidance compared to IFRS 15. Some of this guidance may be useful in developing INPAG; key areas of additional or modified guidance include:

Identifying compliance obligations	The guidance covers obligations to use resources internally; this guidance requires the identification of

	distinct goods or services acquired or developed by the recipient.
Recognition of a liability	Specification that where an entity receives funds prior to satisfying its compliance obligations, this will give rise to a liability. This approach may be easier for NPOs to understand than the approach in Section 23 of the *IFRS for SMEs* Accounting Standard.
Satisfaction of a compliance obligation	Guidance on determining whether a compliance obligation to use resources internally is satisfied over time or at a point in time.
Allocating the transaction consideration to compliance obligations	Requirement that the transaction consideration is to be allocated to compliance obligations in proportion to their stand-alone value. The guidance specifically notes that the stand-alone value for a distinct good or service for internal use will be the price the entity would pay to acquire that good or service.

4.8 While the additional guidance in the draft new IPSAS may be helpful in developing the non-exchange revenue section of INPAG, it should be noted that the level of complexity is comparable with IFRS 15. Consequently, while the approach taken in the new draft IPSAS may be helpful, the text will need to be simplified and adapted when developing INPAG.

5. Approach to be taken in INPAG

5.1 As a result of the amendments proposed to both the *IFRS for SMEs* Accounting Standard and IPSAS, the underlying principles in accounting for revenue under all three international frameworks is likely to be similar, and based on satisfying performance conditions. The INPAG secretariat is of the view that INPAG should therefore adopt these principles in accounting for revenue.

5.2 The approach being developed for the draft new IPSAS is likely to helpful in covering some types of non-exchange revenue that NPOs will have, but which are not addressed fully in the *IFRS for SMEs* Accounting Standard. However, the timing of these developments may mean that the final text is not available when INPAG is being developed.

5.3 The new IPSAS standard is being developed as a single standard, with non-exchange transactions integrated into the standard. The *IFRS for SMEs*

Accounting Standard differentiates between Revenue and Government Grants. Having a section on self-generated revenue (exchange revenue) and a separate one on grants and donations (non-exchange revenue), might feel more intuitive for NPOs.

5.4 As a result, there are three options for developing INPAG.

Option 1 - Incorporate guidance for exchange transactions by cross reference.
The requirements for exchange revenue would be based on Section 23 of the *IFRS for SMEs* Accounting Standard. The requirements for non-exchange revenue would take the principles in Section 24 *Government grants*, and add additional guidance where necessary. Where this guidance exists in Section 23, this could be incorporated by cross-reference to avoid duplication. Additional guidance, based on the draft new IPSAS would also be included where this is helpful.

The INPAG secretariat do not recommend this approach as incorporating guidance from Section 23 by cross-reference is likely to be difficult to follow, especially where the additional guidance is in Section 24. Also the requirements in Section 23 may be overly complex for non-exchange revenue.

Option 2 - Develop a single set of requirements for all revenue
INPAG would include a single set of requirements covering both exchange and non-exchange revenue, effectively replicating the approach being taken in the draft new IPSAS. This would replace the text of both Sections 23 and 24 in the *IFRS for SMEs* Accounting Standard.

The INPAG secretariat do not recommend this approach. It would require significant additional resources to develop the approach, as exchange revenue is not included in this phase of INPAG. In addition, it is not clear that having a single set of revenue guidance would be the most helpful for users of INPAG. There is a risk that the development of the draft new IPSAS may not be complete in time to form the basis of the text in INPAG. These factors would result in a high risk to development revenue guidance for ED2.

Option 3 - Develop the requirements for non-exchange revenue, retain the requirements for exchange revenue
Section 23 of the *IFRS for SMEs* Accounting Standard would be retained unchanged for exchange revenue. Section 24 would be replaced by new requirements for non-exchange revenue. Guidance may be taken from Section

23 where this is relevant, supplemented by additional guidance from the draft new IPSAS (particularly in respect of funder restrictions that do not involve a transfer of goods or services to other parties). The location of this guidance (core text or application guidance) will need to be determined.

The INPAG secretariat recommend this approach as the most practical solution for developing INPAG in the time available. It proposes that the new section for non-exchange revenue is called Grants and donations.

Question 2: Does the TAG agree that with the proposed approach for the developments in the relevant sections in INPAG?

6. Next steps

Overall approach

6.1 There is little disagreement that where an NPO receives donations and grants without any constraints on their use, revenue should be recognised when the donations are received (or receivable, if this is earlier).

6.2 There is less consensus on when an NPO should recognise revenue where a grant or donation has restrictions imposed by the funder, although the majority of respondents who indicated a preferred alternative supported the recognition of revenue as or when performance conditions[5] are satisfied.

6.3 Recognising revenue on a systematic basis over the periods in which the related expense is recognised (the IAS 20 approach) received only limited support from respondents. This approach would require deferred amounts to be recognised as liabilities and is problematic as these amounts do not meet the definition of a liability in Section 2. This approach is therefore not conceptually sound.

6.4 Recognising revenue only when the cash or other asset is received (as proposed by one respondent) is contrary to the concepts and principles in Section 2, which are accrual-based.

5 This paper uses the term 'performance conditions', as this is the term used in the *IFRS for SMEs* Accounting Standard. The equivalent term used in the draft new IPSAS is 'compliance obligations' while the terms 'restrictions' and 'conditions' are used in IPSAS 23. The question of which term should be used is discussed later in this paper.

Question 3: Does the TAG agree that donations and grants received without any constraints on their use, should be recognised when the donations are received (or receivable, if this is earlier)?

Question 4: Does the TAG agree that where the donation or grant is constrained on their use, recognition of revenue should occur as or when performance conditions are satisfied?

6.5 Two main variants of the performance condition approach exist in current international standards. Under IPSAS 23, there must be a 'use or return' condition in the funding agreement for a performance condition to exist. This is not the case under the approach for government grants in the *IFRS for SMEs* Accounting Standard.

6.6 The INPAG Secretariat is of the view that performance conditions can exist without the existence of a 'use or return' condition in the funding agreement. An NPO may have a liability if the funder can enforce performance, regardless of whether the agreement includes a 'use or return' condition. As well as being consistent with the approach for government grants in the *IFRS for SMEs* Accounting Standard, this approach is consistent with the concepts and principles in Section 2 and with the IPSASB's latest thinking as set out in Exposure Drafts (EDs) 70 and 71 and subsequent agenda papers.

Question 5: Does the TAG agree that performance conditions can exist without the existence of a 'use or return' condition in the funding agreement?

Performance conditions

6.7 The *IFRS for SMEs* Accounting Standard refers to performance conditions without defining the term (performance conditions as included in the glossary are found in the share-based payments section). Additional guidance on what constitutes a performance condition will be required and the INPAG Secretariat will also consider what term should be used.

6.8 A key issue in determining whether a performance condition exists is that the condition needs to be specific, so that satisfaction of that performance condition can be assessed. If the performance condition is not specific, it will not be possible to determine whether, or when, the performance condition has been satisfied. The INPAG Secretariat has identified the following scenarios which will need to be considered in developing the guidance:

6.9 **An NPO is required by a grantor/donor to deliver goods or services to specific beneficiaries** - this is analogous to the satisfaction of promises under the revenue from contracts with customers section of the *IFRS for SMEs* Accounting Standard, and should raise few difficulties as the goods, services and beneficiaries should be clearly identified in the funding agreement.

6.10 **An NPO is required by a grantor/donor to purchase or develop a non-current asset** – guidance will be required on determining whether revenue should be recognised as the asset is developed or on completion. Guidance will also be required on separating performance conditions for the purchase or development of the asset and performance conditions for the subsequent operation of the asset. This is in line with the guidance being developed by the IPSASB.

6.11 **An NPO is required by a grantor/donor to use the donation or grant internally** – guidance will be required on determining when the performance condition is specific. If the performance condition is not specific, the funder will not be able to enforce performance and revenue should be recognised immediately. Examples of this type of condition would be running internal training courses and using the donation or grant to deliver services generally.

Question 6: Does the TAG agree with the proposals for guidance on performance conditions? Are there any other scenarios that should be addressed?

6.12 Some donations and grants may be provided with a constraint that they are to be used in a specific time period, but with no further constraints. Guidance will be required on determining whether such constraints are performance conditions (i.e., are the constraints specific and capable of being enforced by funders). This question arises because an NPO could incur expenses and determine at a later date whether to fund the expenses from its general funding, from the donations or grants given, or from a mixture of the two. If the constraint is not a performance condition, revenue should be recognised immediately. The donation or grant would be presented in the financial statements as income with restrictions, but revenue recognition would not be deferred. Guidance would need to refer to Sections 3-10 on the financial statements.

Question 7: Does the TAG consider time constraints are performance conditions? If not, does the TAG agree with the proposed accounting treatment for constraints that are not performance conditions?

6.13 Some donations and grants may be provided with a constraint that they are to be used for a particular purpose (which is general in nature, for example to be used for healthcare), but with no further constraints. As with time constraints, guidance will be required on determining whether such constraints are performance conditions

Question 8: Does the TAG consider general purpose constraints are performance conditions? If not, does the TAG agree with the proposed accounting treatment for constraints that are not performance conditions?

6.14 One respondent considered that government and non-government grants should be treated differently. The INPAG secretariat consider that the nature of government and non-government grants is the same, i.e. non-exchange revenue, and that there should be no difference in the recognition and measurement of these grants. An NPO's relationship with a government may be different to its relationships with other funders, and this may justify separate disclosure of government grants, depending on the NPO's circumstances.

Question 9: Does the TAG agree with the INPAG secretariat's views on grants?

Exceptions to the recognition and measurement principles

6.15 Alternative 4 in the Consultation Paper proposed a number of exceptions to the recognition and measurement principles for cost-benefit reasons. One exception (not requiring the recognition of services in-kind) was taken from IPSAS 23, and others (relating to various types of gifts in-kind) were taken from national standards. Respondents generally supported permitting the use of these exceptions regardless of which alternative was adopted. The INPAG secretariat also supports permitting the use of these exceptions, while acknowledging that the use of these exceptions may result in different accounting between the NPO and the funder.

6.16 IPSAS 23 permits, but does not require, entities to recognise services in-kind. This approach is adopted because of the difficulties with identifying and measuring services in-kind, especially where the services provided would not otherwise have been purchased.

6.17 Some national standards require services in-kind to be recognised as revenue in specific circumstance

- Where the services would otherwise be purchased (revenue and an expense are recognised).
- Where the services involve skilled or professional labour that would otherwise be purchased (revenue and an expense are recognised).
- Where the services involve the creation of a non-current asset (revenue and an element of the cost of the asset are recognised).

6.18 Other national standards require or permit services in-kind to be recognised in all cases where they can be measured reliably. Measurement is usually at fair value. Where services would otherwise have been purchased, this will often be the value to the NPO (the amount it would otherwise have had to pay).

6.19 Where services in-kind are not recognised, disclosures about significant services received are generally required by national standards. If the recognition of services in-kind is required in some circumstances, the guidance will need to be clear about when recognition is required.

6.20 The INPAG secretariat is proposing to adopt the approach in IPSAS 23 that NPOs are permitted but not required to recognise services in-kind as revenue. However, there may be merit in requiring the recognition of services in kind in the specific circumstances identified in national standards, and is seeking the views of TAG members as to whether recognition should be required in some or all of these cases.

> Question 10: Does the TAG agree with the principle that the recognition of revenue from services in-kind should be permitted but not required?

6.21 IPSAS 23 requires all gifts in-kind to be recognised and measured in accordance with that Standard. However, some national standards provide exceptions for certain types of gifts in-kind, and respondents to the Consultation Paper supported including these exceptions in INPAG.

6.22 The INPAG secretariat supports the inclusion of the exceptions, and proposes the following treatments:

- An NPO receives a non-current asset (for example, a vehicle or building) – the NPO should recognise the asset and measure it at fair value, with no exception being permitted where the asset received is material.
- An NPO receives items for resale – where the items received are high volume, low value items, the NPO should be permitted to not recognise revenue (and therefore not recognise the items as inventory) on receipt, but instead to recognise revenue if and when the items are subsequently sold. This permitted treatment will need to be covered in the Inventory section of INPAG. If the NPO receives high value items for resale, these should be recognised as revenue on receipt, in the same way as gifts of non-current assets would be recognised as revenue.
- An NPO receives items for distribution to beneficiaries or for its own use (whether for delivering services or for administration purposes) – the NPO should be permitted not to recognise revenue (and therefore not recognise the items as inventory) on receipt, but instead to recognise revenue and an expense if and when the items are subsequently distributed or used (provided that the revenue and expense can be reliably measured). This permitted treatment will need to be covered in the Inventory section of INPAG.

Question 11: Does the TAG agree with the proposed treatment of gifts in-kind?

6.23 As the reason for permitting the exceptions is to avoid the costs to NPOs outweighing the benefits to users of the NPO's financial statements, the guidance will need to specify when use of the exceptions is permitted. This could be an accounting policy choice available to all NPOs. Alternatively, use of the exceptions could be allowed as an 'undue cost or effort exemption' as set out in Section 2 of INPAG. This would require NPOs to recognise services and gifts in-kind unless the cost or effort involved in providing the information substantially exceeds the benefits to the users of the financial statements.

6.24 Different approaches may be appropriate for the various exceptions being considered; for example permitting an accounting policy choice for services in-kind but only permitting an 'undue cost or effort exemption' for gifts in kind.

Question 12: Should exceptions to the recognition and measurement requirements be permitted as an accounting policy choice or as an undue cost or effort exemption?

Question 13: Should the same approach be adopted for all exceptions, or should there be different requirements for different exceptions?

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Annex A: Detailed Responses to Specific Matters for Comment

Question	Response	Number	%	% Responded
SMC 3(a) Do you agree with the description of issue 3 – Non-exchange revenue? – in the Consultation Paper? If not, why not?	Agree	22	32%	81%
	Disagree	4	6%	15%
	Neither Agree nor Disagree	1	1%	4%
	Non-Response	*42*	*61%*	
TOTAL		69	100%	100%
SMC 3(b) Do you agree that the list of alternative treatments that should be considered for issue 3 is exhaustive? If not, please describe your additional proposed practical alternatives, and explain why they should be considered.	Agree	20	29%	71%
	Disagree	8	12%	29%
	Neither Agree nor Disagree	0	0%	0%
	Non-Response	*41*	*59%*	
TOTAL		69	100%	100%

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Question	Response	Number	%	% Responded
SMC 3(c) Do you agree with the advantages and disadvantages articulated for each alternative accounting treatment for issue 3? If you do not agree, please set out the changes you propose, and why these should be made.	Agree	20	29%	77%
	Disagree	6	9%	23%
	Neither Agree nor Disagree	0	0%	0%
	Non-Response	*43*	*62%*	
TOTAL		69	100%	100%
SMC 3(d) Please identify the alternative treatment that you favour for issue 3, and the reasons for your view.	Alternative 1	7	10%	27%
	Alternative 2	3	4%	12%
	Alternative 3	0	0%	0%
	Alternative 4	9	13%	35%
	Multiple Alternatives	3	4%	12%
	None	4	6%	15%
	Non-Response	*43*	*62%*	
TOTAL		69	100%	100%

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Question	Response	Number	%	% Responded
SMC 3(e) If you favour an alternative other than alternative 4 for issue 3, 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?	Agree	15	22%	88%
	Disagree	2	3%	12%
	Neither Agree nor Disagree	0	0%	0%
	Non-Response	*52*	*75%*	
TOTAL		69	100%	100%
SMC 3(f) Are there any practical considerations, for example impacts on tax or audit thresholds, or questions that arise in implementing your preferred option for issue 3?	Agree	17	25%	77%
	Disagree	5	7%	23%
	Neither Agree nor Disagree	0	0%	0%
	Non-Response	*47*	*68%*	
TOTAL		69	100%	100%

Annex B

IFRS 15 five step model and key issues associated with each step, are set out in the table below:

Step	Key Issues
Step 1: Identify the contract(s) with a customer	A contract must have the following features: • the parties to the contract have approved the contract and are committed to perform their respective obligations; • the entity can identify each party's rights regarding the goods or services to be transferred; • the entity can identify the payment terms for the goods or services to be transferred; • the contract has commercial substance; and • it is probable that the entity will collect the consideration to which it will be entitled in exchange for the goods or services to be transferred to the customer. This step also includes guidance on when contracts should be combined, and how to account for modifications to contracts. This guidance can generally be applied to funding arrangements.
Step 2: Identify the promises in the contract	An entity is required to identify each promise to transfer a distinct good or service (or a distinct bundle of goods or services). (*This requirement that a promise relates to the transfer of a distinct good or service may be narrower than the equivalent performance condition in Section 24).* A good or service is distinct if both of the following criteria are met: • the customer can benefit from the good or service either on its own or together with other resources that are readily available to the customer (ie the good or service is capable of being distinct); and • the entity's promise is to transfer the good or service separately from other promises in the contract.

	Some funding agreements will require an NPO to deliver distinct goods or services (typically to third parties rather than to the funder), and so this guidance may be relevant. However, other funding agreements may include different performance conditions (promises), which the guidance in Section 23 does not address. This step also includes additional guidance covering, for example, upfront fees and customer options for additional goods or services.
Step 3: Determine the transaction price	The transaction price is the amount of consideration to which the entity expects to be entitled in exchange for transferring goods or services promised to a customer, excluding amounts collected on behalf of third parties (for example, some sales taxes). Guidance addresses a number of issues that can arise in determining the transaction price, including: • Variable consideration (for example, where the amount may be affected by discounts, bonuses or penalties); • Sale with a right of return (for example, where the customer buys items on a sale or return basis); • Time value of money (i.e., the need to discount amounts that will not be received for more than one year); and • Non-cash consideration. Some of this guidance may be relevant to non-exchange revenue.
Step 4: Allocate the transaction price to the promises in the contract	An entity is required to allocate the transaction price to each promise in proportion to the stand-alone selling price of each item, subject to any variations due to discounts or variable consideration. The stand-alone selling price is the price at which an entity would sell the good or service (that is promised in a contract) separately to a customer. This step includes guidance on allocating discounts and variable consideration, and how to account for changes in the transaction price.

	This guidance may not be relevant to funding agreements unless the NPO sells the goods or services covered by the agreement.
Step 5: Recognise revenue when (or as) the entity satisfies a promise	An entity recognises revenue when (or as) it satisfies a promise to transfer a good or service to a customer. A good or service is transferred when (or as) the customer obtains control of that good or service. An entity needs to determine whether the promise is satisfied over time or satisfied at a point in time, and this step includes guidance on the criteria that need to be met for a promise to be satisfied over time. Where a promise is satisfied over time, this step includes guidance on measuring progress towards complete satisfaction of the promise. Promises that are not satisfied over time are satisfied at a point in time, and this step includes guidance on determining that point in time.